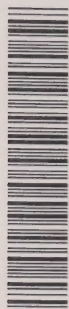


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SERVICE SECTOR

AN OVERVIEW

SERVICE SECTOR SECRETARIAT

MINISTRY OF INDUSTRY,
TRADE AND
TECHNOLOGY
ONTARIO





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SERVICE SECTOR


AN OVERVIEW

SERVICE SECTOR SECRETARIAT

Prepared By:
Service Sector Secretariat
Small Business, Services & Capital Projects ✓
Ministry of Industry, Trade & Technology

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SERVICE SECTOR SECRETARIAT

SERVICE SECTOR OVERVIEW

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EXECUTIVE SUMMARY

BACKGROUND

The latter half of the twentieth century has witnessed the evolution in all developed countries from economies based on agriculture, primary resource extraction and manufacturing to economies based on services.

In recognition of the increasing importance of the service sector, the Ontario government established the Service Sector Secretariat within the Ministry of Industry, Trade and Technology to study the growing force of the service sector in the economy, identify key issues and areas of opportunity, and foster the sector's growth and competitiveness.

I. SITUATION ANALYSIS

Ontario's service sector is large, diverse and vibrant. It is growing in areas which will require increasingly higher standards of education and knowledge and which will provide better pay and quality of jobs in the future.

The growth of the service sector has contributed significantly to the unsurpassed quality of life enjoyed by Ontarians both in terms of the wide life style choices it supports and the stability it adds to the economy.

Despite the obvious importance of the service sector in Ontario's prosperity, much work remains to be done in evaluating and analyzing the myriad of policy and program issues which affect the sector's continued development. The inter-relationships of the issues complicate this task.

An area immediately in need of attention is the development of Ontario's tradeable service exports. Canada and Ontario continue to register a deficit in the international trade in services arena. Although some of the constraints facing potential service exporters are beyond the influence of Ontario policy and program developers, considerable opportunity exists to support and promote exporting activities and improve the competitiveness of Ontario's service industries.

By virtue of the quantity of services purchased by the Ontario government, procurement policies and practices have a major impact on the regional development of service industries. Government purchasing decisions also have an important impact on technology development and transfer. For example, government agencies often have a choice of hiring new staff to perform a particular function, or engaging the services of a private consultant. Generally, the latter option has greater potential for technological development. Opportunities exist to influence procurement policies in order to achieve maximum economic development benefits.

Major opportunities for enhancing Ontario's service sector relate to the determination and provision of better information about service sector developmental requirements and the co-ordination of multiple policies and programs controlled by the twenty-plus ministries which now impact the sector. While both of these are complex and far reaching tasks, this kind of activity is now commencing at the federal level and in other jurisdictions in Canada and abroad and must be addressed in Ontario in an orderly - if not massive way.

SITUATION ANALYSIS

OVERVIEW OF THE SERVICE SECTOR

The service sector is a very diverse segment of the economy. Over 100 distinct types of activities can be found within the sector, ranging from traditional service industries such as personal and household services to more specialized and knowledge-intensive industries such as business and finance. Public and non-profit sectors, such as government, hospitals, and volunteer organizations, are included within this area of the economy as well as private sector service industries. Since the sector as a whole is non-uniform, a number of different Ontario ministries are concerned with various aspects of its regulation and development. Prior to the establishment of the Service Sector Secretariat, no one body in government had a interest in balancing and integrating the many policies and programs having impact on this sector. The delineation of the service sector by the Service Sector Secretariat is provided in Appendix I. Details on each of these broad categories of this publication are found in the respective sections. To maximize use of resources, the Secretariat has chosen to concentrate much of its effort on a targeted range of highly knowledge intensive and tradeable service industries. For additional information on which industries have been targeted for more detailed attention, contact the Secretariat.

All industries in the sector are affected by events and issues that concern policy makers. There are numerous inter-relationships between these issues. For instance, a discussion of education not only involves the traditional definition and role of education, but the impact and implementation of technology, the entrance of women into the labour force, the question of increased productivity, and the value added that is implicit within increased educational levels. Similarly, trade is affected by a myriad of issues, such as labour mobility, international agreements, government procurement policies, and the right of establishment, to name just a few. This brief analysis provides an overview of the service sector and the major issues affecting its development.

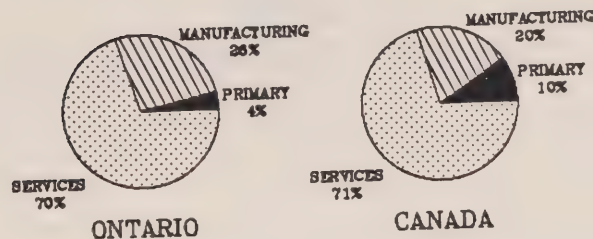
Size and Growth

The service sector has been the largest and fastest-growing segment of the Canadian economy since 1940. Gross Domestic Product (which includes every factor payment made in Canada and excludes incomes of Canadians earned for factor services abroad) for the service sector accounted for 71% of the Canadian economy in 1987. Manufacturing accounted for 20% and the primary sector generated the last 9%.

Similar growth holds true for Ontario's service sector. Gross Domestic Product for the sector in Ontario was approximately 70% in 1987, as compared to 26% for the manufacturing sector and 4% for primary industries. (See graph 1.)

GRAPH 1

GDP BY SECTOR
(1987)



Source: The Conference Board of Canada:
Economic Forecast Summer 1988
Provincial Outlook

According to the Ontario Task Force on Employment and Technology, 75% of all new job creation in the 1985 to 1995 period will be generated within the service-related industry sectors. The lion's share of service market growth in Canada and Ontario is found within the public, business, and personal service sectors. The real growth services are not personal services like restaurants and barber shops, but in the comparatively knowledge intensive areas such as computers, management consulting, engineering, legal, financial and real estate.

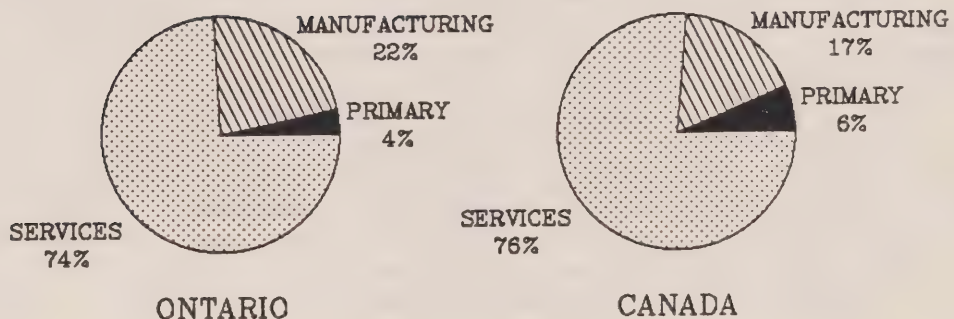
The emergence of the service sector as a dynamic economic force in the post-war period is attributable to a number of factors. First, increasing wealth and prosperity resulting from the rise in disposable income has generated a greater demand for all types of services. Second, expansive fiscal policies by all levels of government have had direct impact on the service sector in publicly financed services. Third, technological innovations and the growing specialization of organizations have spurred demand for commercial services that act as intermediate inputs into the production process. Finally, increased leisure time and changing employment patterns and demographics, particularly among women, have prompted new patterns of demand for service functions.

Employment

For the country as a whole, service sector employment has increased from about 40% of the labour force in 1945 to about 76% in 1986. During the same period, employment in Ontario's service sector increased from 47% to 73.8%.

As a percentage of total employment, manufacturing employment for Canada in 1987 was 17%, while the primary industries accounted for 6%. This compares with Ontario's 22% in manufacturing and 4% in primary industries. (See graph 2.)

GRAPH 2
EMPLOYMENT BY SECTOR
(1987)



Source: Quarterly Economic Review
Annual Reference Tables, June 1988
& Stats. Canada Catalogue 15-001P

According to researchers, structural shifts in employment occurring in the U.S. show a decrease in low-wage manufacturing jobs and an increase in middle to high-wage service occupations. The most rapid increase is being registered in skilled, information-related positions. This represents a substantial change over the generally held view of the employment profile of the service sector. The wage structure in the sector has been stereotyped as low wage with minimal benefits and little opportunity for advancement.

Satisfaction in service sector employment depends not only on the right set of job skills, but also on equity in the workplace. For women in particular, service sector employment has traditionally been associated with job discrimination. Women increased their participation in the work force primarily in the service sector and predominantly in low-paying personal service jobs with few advancement opportunities. However, the growth in demand for higher order, higher paying services is helping to alleviate the inequities entrenched in the workplace. There is also evidence that where service sector growth fuels general economic expansion, women benefit from that expansion.

The Stability of Services in Society

Since they purchase many services regardless of the business cycle, people show that they value services at least as highly as manufactured goods. Factors such as convenience, security, comfort and flexibility, which customers seem unprepared to do without, add value to services.

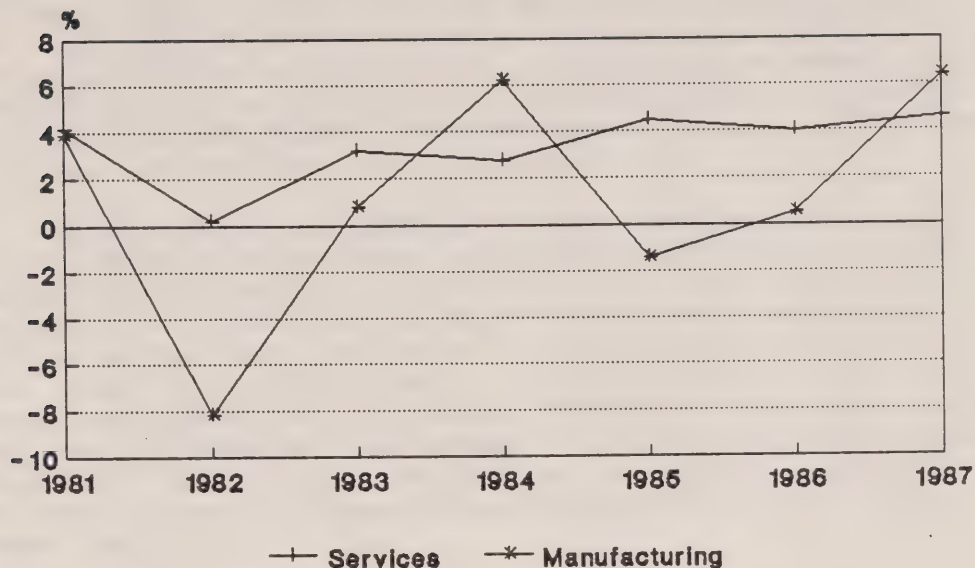
With the exception of the construction industry, most service sector industries are recession-resistant. Since, unlike manufactured goods, the majority of services are not inventoried, service industries are not affected by the great inventory buildup that accompanies a recession. Demand for services is more stable than for manufactured goods. For instance, customers in a recession still demand services from a bank, but instead of depositing money, they may be applying for a loan. During a recession consumers will defer major capital expenditures on hard goods such as new homes or furniture; instead, they prefer to renovate and redecorate with existing structures. In this case, service employment is being substituted for manufacturing employment.

The following graph illustrates the recession resistance of the service sector. During the recent 1982 downturn in the economy, employment in manufacturing, falling 8.2%, fared far worse than services, which increased employment by 0.2%. (See graph 3.)

John Kettle in his publication "FutureLetter" examined the "robustness" of 13 sectors of the economy by looking at their performance during three recent time periods: 1977-81, the last boom; 1981-83, the recession; and 1983-86, the recovery. Robust sectors were defined as those that performed well in all three time periods. He concluded that the service industries were the ones that are best able to sustain growth. Eight of the top nine places fell to service industries, while two of the bottom three belonged to the resource sector.

GRAPH 3

ANNUAL EMPLOYMENT CHANGE BY SECTOR
Ontario 1982 to 1987



Source: Statistics Canada Catalogue
16-001P

Contribution to Quality of Life

According to Dr. Dorothy Riddle, three indicators have traditionally been used to assess the physical quality of life: literacy rate, infant mortality rate, and average life expectancy. In developing countries longer life expectancy is clearly linked to the service sector. Dr. Riddle attributes this gain either to favourable working conditions in the service sector or the enhancement of physical health and well-being based on the provision of certain services. Service-led growth includes the expansion of health and education industries vital to an improved physical quality of life. At the same time, a work environment is fostered that promotes greater life expectancy and increased opportunities for literate workers.

The service sector greatly enhances the quality of life in Canadian society. In Ontario, quality of life goes beyond the basic needs for food and shelter, implying cultural enrichment, personal development and intellectual stimulation. Services offer choice to consumers in almost every avenue of daily living, whether it is a matter of choosing between opera and television or deciding on the degree of personal development to pursue. The proliferation of exotic foods and vegetables in Toronto would not be available without the existence of advanced transportation and distribution services.

MAJOR ISSUES AFFECTING THE SERVICE SECTOR

Government Procurement and Economic Development

The current procurement policy of the Ontario government does not explicitly favour Ontario suppliers of goods and services. By virtue of the quantity of services purchased by government ministries and agencies, however, government could have a major impact on the growth and development of service industries in the province. Several issues emerge which have the potential for action by the Secretariat.

First is the issue of whether government purchases should be on the cutting edge of systems and technology. Some observers would argue that government should not be a risk taker, but should administer itself in as cost-effective a way as possible, while others argue that government purchasing can be used to stimulate industrial development. For example, in the purchase of computer equipment and software, government has the option of designing new systems or purchasing "off the shelf" technology. In general, the Secretariat encourages government agencies to consider the industrial development possibilities of their procurement decisions.

Second is the "make or buy" issue. Some ministries and agencies have a tendency to hire new staff when undertaking new projects or programs. For example, if software needs to be developed for a particular application, staff will be hired (on a contract or permanent basis) to carry out the task. The opportunity may exist, however, to hire the services of a computer consulting company to perform the same task. Through such government contracts, firms are able to gain valuable experience which they may be able to market widely in the province or export to other provinces and countries. If the expertise is developed "in-house", however, the likelihood of the technology being marketed is slim. Again, the secretariat encourages ministries to consider the industrial development potential of procurement decisions.

A third issue concerns the regional economic development possibilities of government procurement policy. The Northern Ontario Relocation Program is an example of government's attempt to spread the benefits of government purchases throughout the province. Simply relocating a ministry, however, does not ensure that procurement practices will change enough to allow a significant contribution from local services suppliers. Further analyses of actual government practices under Ontario's decentralized purchasing policy are required.

At a broader level, the potential for services to play a role in regional economic development is an issue which requires consideration. Many unanswered questions remain about the ability of services to generate growth in local economies and the type of policies and programs that can encourage service industries to locate in areas for maximum regional development benefit.

A fourth issue is privatization - government bowing out of activities that can be performed by the private sector. The issue of privatization brings into question what the role and responsibility of government should be and the degree to which government wishes to intervene in the socio-economic life of society. These are essentially political decisions, and not ones in which the Secretariat is likely to play a significant role, despite the implications they hold for economic development.

Technology Development and Transfer

As alluded above, the impact and increasing importance of technology is a major issue facing the sector. In this day and age, a company that wants to survive, never mind succeed, must utilize technology to maintain a competitive edge.

Technological innovations provide time-saving and cost-cutting functions that create a new level of complexity in many service sector jobs. To meet this technological challenge, the labour force must be adaptable and willing to learn new technologies. Either on-the-job training or public education can fill this need.

A climate which encourages risk-taking in the development of new technologies is essential for continued service sector growth. Further, the effective transfer of technologies from leading firms and research operations to all service companies must also be supported.

Education and Skills Development

The importance of education has increased as the service sector has become a dominant economic force. Since the sector is comprised of predominantly white-collar employees, it is necessary to establish particular standards of educational levels and professional accreditation in order to maintain a degree of professionalism. Educational standards may bar entry in certain service occupations where particular levels of education or training are prerequisites for employment. For example, many management consulting firms tend to hire

individuals who have completed an MBA (Masters of Business Administration). Increasing specialization and technological innovation also require higher skill development. Therefore, education is of paramount importance to employment in this sector.

Productivity

Services are plagued with the problem of establishing a quantitative value added for invisible activities. According to James Quinn and Christopher Gagnon, service companies produce a value-added component at a comparable or higher rate than manufacturing industries. They discovered that in the aggregate, more money is often made in the goods sector through information and services than through production activities. The US National Study on Trade in Services showed that about three-quarters of the total value added in the goods sector is created by service activities within the sector. Service industries have the potential of increasing productivity to maintain real growth in per capita income.

Measuring the productivity and contribution of service activities to the economy is difficult for several reasons. First, services and production activities are often substitutable. For example, service activities such as accounting, engineering, and product design are considered costs of production if they are carried out within a manufacturing operation, but service activities if they are provided externally. Second, for many services, increasing productivity is a meaningless concept, for example using fewer musicians in a symphony orchestra in the name of efficiency. Third, services tend to be implicitly valued according to qualitative rather than quantitative measures. By contrast, the productivity of a production process is usually expressed as the ratio of output to input. Measures of input are generally labour hours worked or capital invested. Measures of output are generally quantifiable and do not take into account the quality or value of goods produced. Productivity in service industries is concerned not only with the efficiency of resource allocation, but also with the effectiveness and quality of service delivery. The qualitative effects of the product must be taken into account.

Statistics Canada has attempted to quantify the productivity of service and manufacturing industries, as shown in the graphs below. Labour productivity has been measured according to output (i.e. GDP) per person and labour compensation. As one can see, services and manufacturing are relatively consistent in their productivity, with major aberrations occurring only during recessionary periods. (See graphs 4 & 5.)

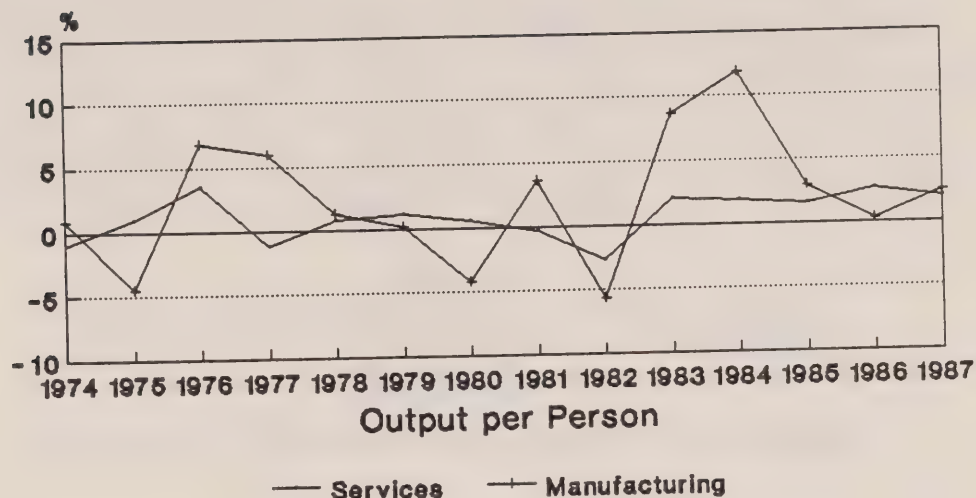
In the service sector, the consumer or user of the service plays an important role in the production process. This role can be passive, as in the case of a passenger in the transportation system, or active, as in the educational process. In some services, productivity is increased by having the consumer take over part of the service delivery for example, self-serve gas stations and instant teller banking machines.

It has been argued that almost 75% of all new employment is in the service sector which has lower than average rates of productivity growth. The implication therefore, is that this sector is responsible for declining productivity growth in the economy as a whole. Such a conventional view of productivity, as measured in traditional ways, stresses the low productivity of the service sector. This may be a function of the predominantly smaller size of businesses in this sector. If a greater proportion of service industries were larger establishments, they might benefit from the introduction of productivity-improving methods and economies of scale and scope. This would help to increase their output per worker. An additional factor is that many services are labour intensive, and increasing output per worker would serve only to decrease the quality of the service provided. In other service activities, as was suggested earlier, the notion of increasing efficiency is a useless notion. Service sector productivity hinges on service quality and effectiveness, characteristics that are very difficult to measure.

There are, though, many opportunities for productivity improvements in the service sector, particularly through the application of electronic information processing equipment. Whether or not these new technologies result in massive unemployment, as some suggest, it is likely that they will negatively impact on new employment in the sector. The implication is that services in the future may not be able to absorb the large number of workers that they did in the past.

GRAPH 4

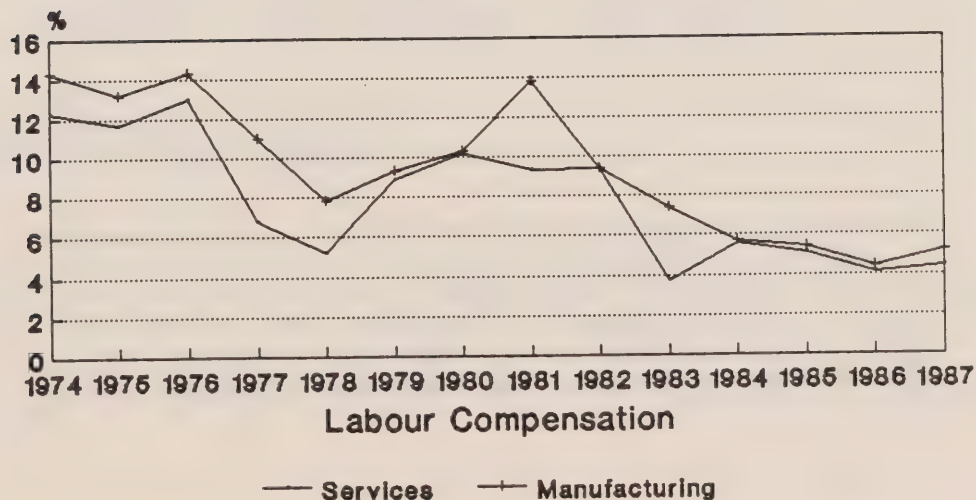
LABOUR PRODUCTIVITY Annual % Change



Source: Quarterly Economic Review
Annual Reference Tables June 1988
Dept. of Finance Canada

GRAPH 5

LABOUR PRODUCTIVITY Annual % Change

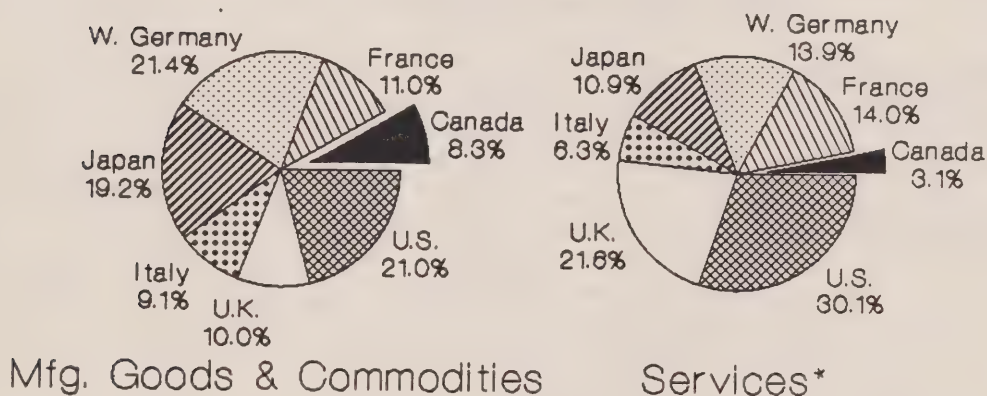


Source: Quarterly Economic Review
Annual Reference Tables-June 1988
Dept. of Finance Canada

Trade in Services

The fastest-growing areas of international trade are in the service sector. According to the International Monetary Fund, exports of tradeable services accounted for 32% of total exports from developed countries. Only 15% of Canadian 1986 exports, however, were in the form of tradeable services. This is a decline from 1970 when services accounted for 14.9%. Canada's relatively weak position vis-a-vis international trade in services is further illustrated by the fact that Canada accounts for 8% of all 1986 goods and commodities trade for some selected developed countries but only 3% of services trade. This data, as depicted in the following graph, does not include return on foreign investment. (See Graph 6).

GRAPH 6
INTERNATIONAL TRADE
Exports
Selected Developed Countries 1986



Source IMF Balance of Pay'ts Stat 1987
*N.B. This data excludes financial flows
reflecting return on foreign investment.

The anomaly of a strong and growing domestic service sector coupled with a weak export orientation can be partially explained by the traditional argument that many service industries are confined to local markets. There is a growing realization, however, that most services and, particularly, high value-added services have export trade potential.

It is also recognized that prospects for continued economic growth and job creation in Canada - and Ontario - are closely linked to the ability of Canadian industries to compete in the international marketplace. And considerable export trade potential does exist in numerous service industries in both the private and public sectors. Indeed, many Ontario-based service firms are recognized as world competitors, particularly in the fields of finance, information technology, consulting engineering, and real estate development. Service organizations in the areas of transportation, health, education, environmental management, professional and business services, and urban management also have the expertise to compete effectively in the international market.

This strong export potential notwithstanding, Ontario service exporters still face a number of major constraints. These include: the degree of competition from other industrialized nations, especially in high value added information technology services; the relatively small size of Ontario service firms; the limited ability of service exporters to finance the development phase of export initiatives; the lack of targeted export assistance programs and lack of information on potential markets for service exports; and non-tariff barriers (NTBs).

Of these constraints, non-tariff barriers are the most important. Some NTBs are designed explicitly to protect domestic industries and to restrict the flow of trade. Import quotas, quantitative export controls, and certain immigration policies are clear examples of this type of non-tariff barrier. Other NTBs are designed to accomplish specific tasks unrelated to restraint of trade. Product standards, professional licensing and contingency protection laws are examples of this type of NTB. The most common barriers involve the discriminatory treatment of imported services by public authorities. These take the form of restrictive licensing requirements, discriminatory taxes or fees, restrictions on marketing and selling of imported services, discriminatory government procurement practices, government subsidization of export, and restrictive customs practices that prevent the importation of essential inputs.

The urgent need for Ontario to improve its position vis-a-vis international trade in services requires that every effort be made to confront or overcome these constraints to service exports and to exploit whatever competitive advantage in services we now have.

Other Issues

George Radwanski in his Ontario Study of the Service Sector report also noted the following problem issues among service industries:

1. Inadequate access to capital. Service industries tend to be small and knowledge intensive, making it difficult to raise equity capital and without the collateral needed for debt financing.

2. Lack of access to management expertise. Service sector entrepreneurs tend to be experts in their field of service activity but lack management and business skills. Often, small service firms are not able to afford the ongoing services of management consulting firms.

3. Lack of access to market intelligence. People running small service businesses may not have the time or resources to carry out market research into evolving trends or new opportunities.

4. Lack of a specialized public policy voice. Radwanski notes that service sector industries do not have the kind of sophisticated lobbying structures that are so important to other sectors of the economy. To some extent at least, the Service Sector Secretariat fulfills this role as advocate for service industries.

Conclusions

Ontario's service sector is large, diverse and vibrant. Although many of the jobs it provides are still low-paying, it is growing in areas that will demand increasingly higher standards of education and knowledge and that will provide better pay and quality of jobs in the future.

The growth of the service sector has contributed significantly to the unsurpassed quality of life enjoyed by Ontarians, both in terms of the wide life style choices it supports and the stability it adds to the economy.

But in spite of the obvious importance of the service sector in Ontario's prosperity, much work remains to be done in evaluating and analyzing the myriad policy and program issues that affect the sector's continued development. Moreover, the fact that these issues are interrelated will complicate this task.

The most immediate area in need of attention is the development of Ontario's tradeable service exports. Canada and Ontario are falling behind in international trade in the services arena. Although some of the constraints facing potential service exporters are beyond the influence of Ontario policy and program developers, considerable opportunity exists to support and promote exporting activities and improve the competitiveness of Ontario service industries.

The other major opportunities for enhancing Ontario's service sector relate to the determination and provision of better information about service sector developmental requirements and the coordination of the multiple policies and programs controlled by the twenty-plus ministries which now impact the sector. While both of these are complex and far-reaching tasks, this kind of activity is now commencing at the federal level and in other jurisdictions in Canada and abroad and must be addressed in Ontario in an orderly -- if not massive -- way.

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SIZE AND GROWTH
TABLE 1

GDP BY SECTOR & SERVICE SECTOR INDUSTRIES (1981 DOLLARS)
1987

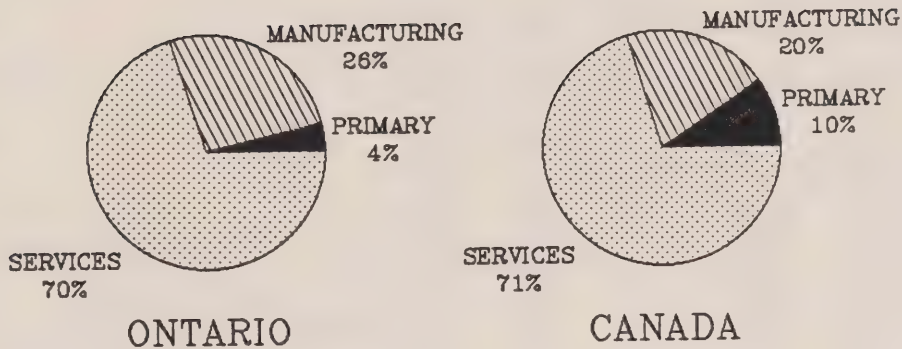
SECTORS	ONTARIO		CANADA	
	(\$bill.)	%	(\$bill.)	%

TOTAL	\$149,032		\$378,940	
PRIMARY	\$6,008	4.03%	\$37,155	9.80%
MANUFACTURING	\$38,529	25.85%	\$74,504	19.66%
SERVICES	\$104,496	70.12%	\$267,278	70.53%
*****	*****		*****	
construction	\$10,088	9.65%	\$27,050	10.12%
transportation & communication*	\$8,323	7.96%	\$29,099	10.89%
utilities	\$3,976	3.80%	\$11,838	4.43%
wholesale & retail trade	\$18,428	17.64%	\$45,784	17.13%
finance, insurance & real estate	\$22,540	21.57%	\$54,399	20.35%
community business & personal services	\$32,696	31.29%	\$75,451	28.23%
public administration & defense	\$8,445	8.08%	\$23,657	8.85%

* For Canada it's : Transportation, Storage & Communication.
Source: The Conference Board of Canada: Provincial Outlook
Summer 1988

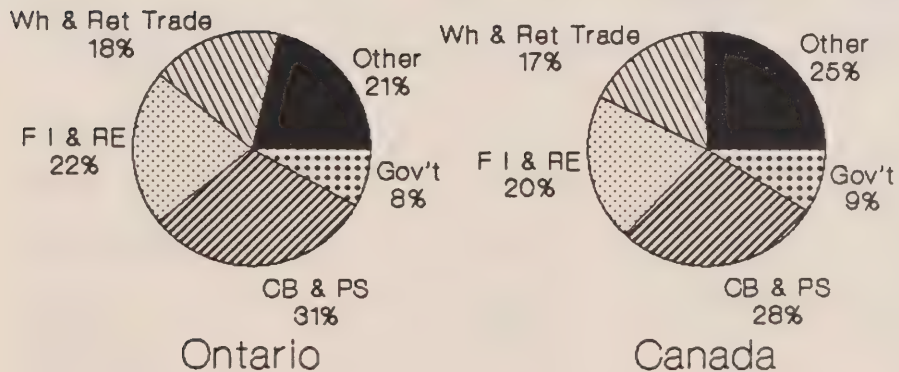
SIZE AND GROWTH
CHART 1

GDP BY SECTOR
(1987)



SIZE AND GROWTH
CHART 2

Service Sector GDP by Industry
Percentage of All Services 1987



SIZE AND GROWTH

TABLE 2

ONTARIO GDP BY INDUSTRY

1981-1987

INDUSTRY	1971		1981		1987	
	(\$bill.)	%	(\$bill.)	%	(\$bill.)	%
TOTAL	\$66,937		\$116,801		\$149,032	
PRIMARY	1,478	2.21%	8,115	6.95%	6,008	4.03%
MANUFACTURING	10,306	15.40%	30,950	26.50%	38,529	25.85%
SERVICES	55,154	82.40%	77,736	66.55%	104,496	70.12%
construction	5,676	8.48%	6,711	5.75%	10,088	6.77%
trans, communication & utilities	4,678	6.99%	6,707	5.74%	12,299	8.25%
wholesale & retail trade	9,993	14.93%	12,908	11.05%	18,428	12.37%
finance, insurance & real estate	11,078	16.55%	17,072	14.62%	22,540	15.12%
community business & personal services	17,372	25.95%	26,715	22.87%	32,696	21.94%
public administration & defense	6,357	9.50%	7,622	6.53%	8,445	5.67%

Source: The Conference Board of Canada, Historical
Statistics and Provincial Outlook, Summer 1988.

SIZE AND GROWTH

TABLE 3

ONTARIO GDP BY SECTOR

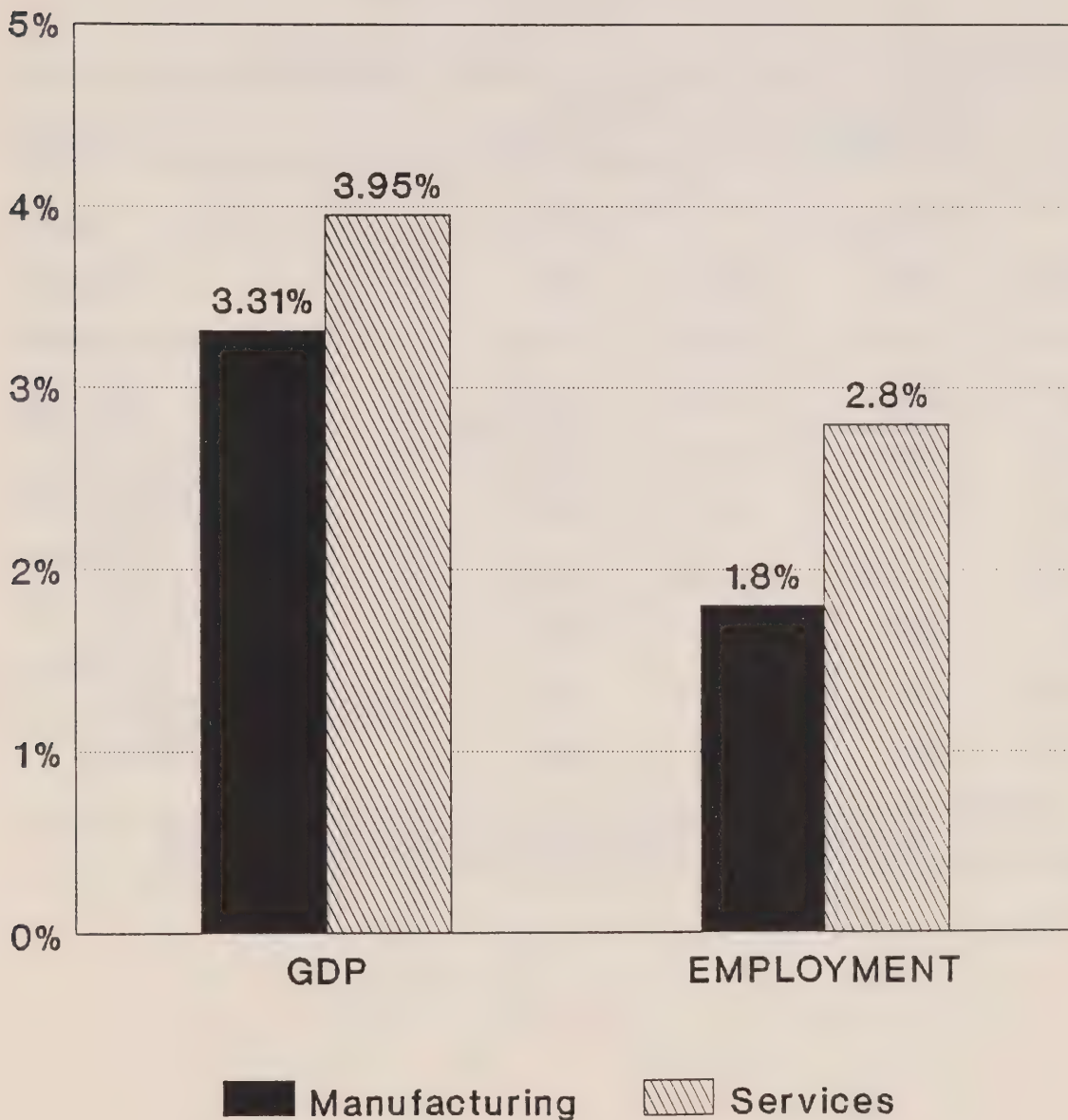
1971-1987

AVERAGE ANNUAL GROWTH RATES			
SECTOR	1971-1981 (%)	1981-1987 (%)	1971-1987 (%)
TOTAL	6.06	4.28	5.39
PRIMARY	5.79	-3.32	2.15
MANUFACTURING	3.89	4.10	3.97
SERVICES	3.51	5.10	4.11
Construction	1.80	7.13	3.80
Trans, Communication & Utilities	3.70	4.41	3.97
Wholesale & Retail Trade	2.61	6.19	3.95
Finance, Insurance, & Real Estate	4.45	3.18	3.97
Community, Business & Personal Service	4.02	3.44	3.80
Public Administration & Defence	1.31	1.74	1.47

Source: Conference Board of Canada, Historical Statistics, 1987 and
Provincial Outlook, Summer 1988.

SIZE AND GROWTH
CHART 3

AVERAGE ANNUAL GROWTH RATES BY SECTOR Ontario 1975-1987



Source: Conference Board of Canada
and Statistics Canada Cat. 71-001.

EMPLOYMENT
TABLE 1

Employment by Industry
1987

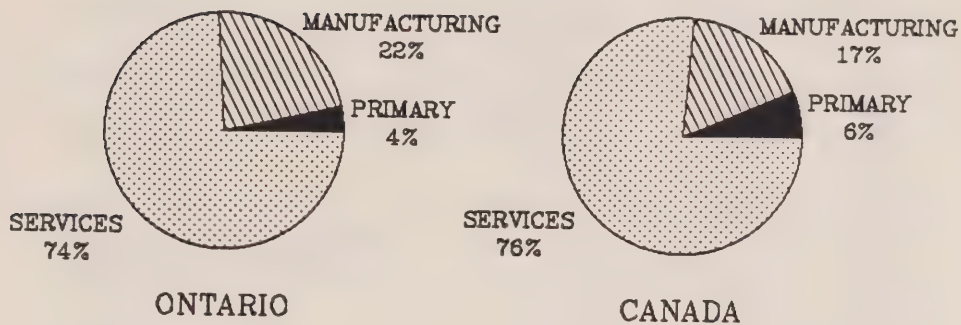
Industry	Ontario		Canada	
	(000's)	%	(000's)	%

TOTAL	4,779		11,955	
PRIMARY	168	3.5%	766	6.4%
MANUFACTURING	1,074	22.5%	2,044	17.1%
SERVICES	3,539	74.1%	9,145	76.5%
*****	*****		*****	
construction	273	5.7%	680	5.7%
transportation & communication*	312	6.5%	906	7.6%
wholesale & retail trade	865	18.1%	2,116	17.7%
finance, insurance & real estate	302	6.3%	695	5.8%
community, business & personal services	1,525	31.9%	3,934	32.9%
public administration & defense	262	5.5%	814	6.8%

Source: Quarterly Economic Review, Annual Reference Tables
June 1988 & Stats. Canada Catalogue 15-001P.

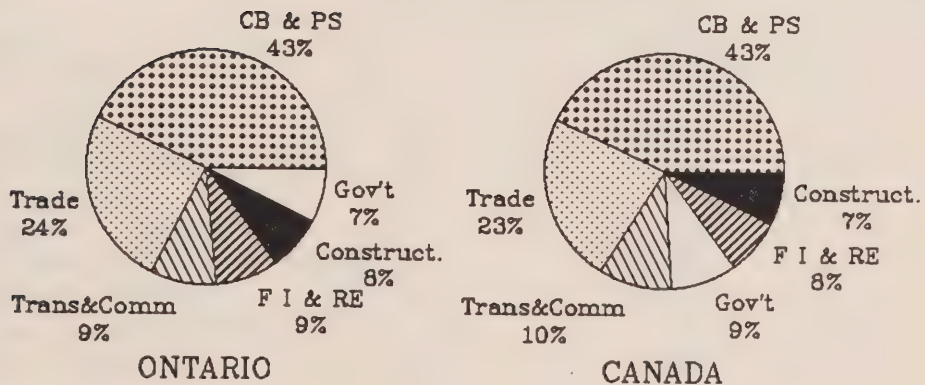
EMPLOYMENT
CHART 1

EMPLOYMENT BY SECTOR
(1987)



EMPLOYMENT
CHART 2

SERVICE SECTOR EMPLOYMENT
BY INDUSTRY (1987)



EMPLOYMENT

TABLE 2

ONTARIO EMPLOYMENT BY INDUSTRY

1975-1987

Average Annual Growth Rate			

INDUSTRY	1975-81	1981-87	1971-87

TOTAL	2.5%	2.4%	2.4%
PRIMARY	4.0%	-2.6%	0.2%
MANUFACTURING	2.9%	1.0%	1.8%
SERVICES	2.3%	3.2%	2.8%
Construction	0.5%	3.1%	2.0%
Trans., Comm. & Utilities	3.7%	0.4%	1.8%
Wholesale & Retail	1.4%	3.9%	2.9%
FI & RE	3.8%	2.8%	3.2%
CB & PS	3.3%	4.3%	4.7%
Public Admin.	0.5%	-0.1%	0.2%

Source: Ontario Statistics 1986 and
Statistics Catalogue 71-001

EMPLOYMENT

TABLE 3

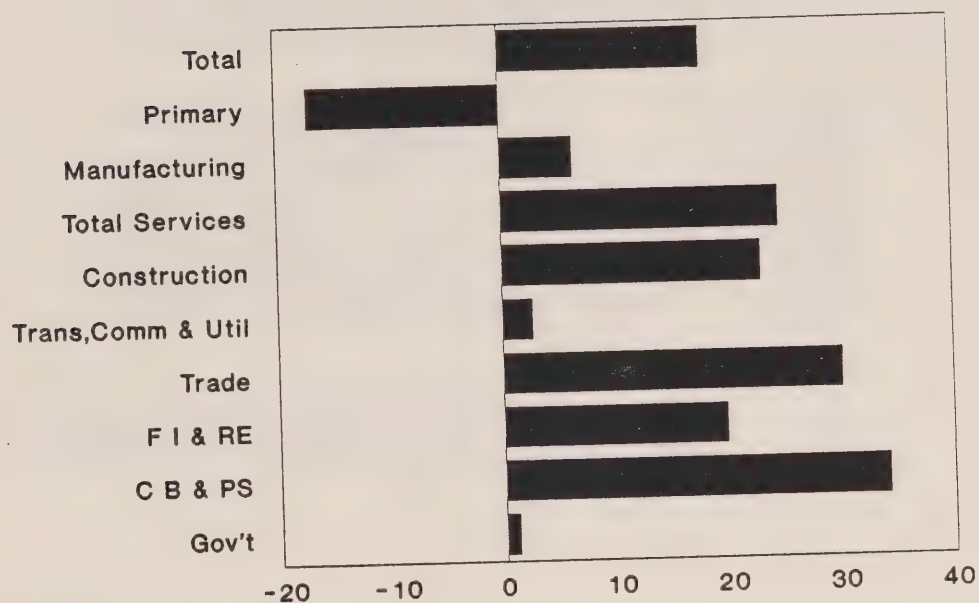
Total Percentage Growth in Employment
by Major Sector, Ontario 1980-1987

Sector	Percentage Growth
Primary	- 17.2
Manufacturing	6.4
Construction	23.0
Wholesale & Retail Trade	30.1
Transportation, Comm. & Utilities	2.6
Fin Services & Real Estate	19.8
Business Services	34.2
Public Administration	1.1
Service Industries	24.6
All Industries	17.9

Source: Stats. Canada 15-001P

EMPLOYMENT
CHART 3

Percentage Growth in Employment
by Major Sector, Ontario 1980 to 1987



Source: Stats. Canada Catalogue 15-001P
and Ontario Statistics 1986

EMPLOYMENT
TABLE 4

Breakdown of Future Employment Growth, 1985-1995

The service sector is expected generate about 80% of all new jobs.

Community, Business and Personal Services	51.8%
Distributive Trades	14.8%
Construction	3.9%
Transportation	4.6%
Public Administration	3.4%
Finance, Insurance and Real Estate	3.0%

Source: Ontario Task Force on Employment
and New Technology, 1985.

EMPLOYMENT
TABLE 5

SELECTED SERVICES INDUSTRIES
ORGANIZATIONS' EMPLOYMENT TRENDS IN ONTARIO

AVERAGE ANNUAL COMPOUND
RATE OF CHANGE (1)

INDUSTRY	ESTIMATED (2) RATE		EXPECTED RATE	
	1981- 1984	1984- 1985	1985- 1990	1990- 1995
Chartered Banks	0.5	1.0	0.0	0.0
Trust Companies	-2.0	0.5	1.0	1.0
Life Insurance	1.0	0.0	2.0	1.0
General Insurance	0.0	1.5	1.5	1.5
Insurance Brokers	1.0	2.5	2.5	1.5
Federal Government	1.5	3.5	0.0	0.5
Provincial Government	-0.5	-0.5	-1.0	-0.5
Local Government	5.5	2.5	1.5	1.0
Telephone Systems & Interconnects	-2.0	-3.0	0.0	-0.5
Telegraph & Cable Systems	1.0	2.5	2.5	2.5
Food Stores (2)	2.5	4.0	2.0	1.5
Computer Services	13.5	20.0	21.5	12.5
Management & Business Consultants	1	6.5	4.5	3.5

(1) Rounded to the closest .5%

(2) Since this study was not updated, only estimates are
available for these categories in these years.

Source: Employment and New Technology in Ontario's service sector:
A Summary of Selected Industries, The Ontario Task Force
on Employment and New Technology, 1985.

INDUSTRIAL STRUCTURE
TABLE 1

Ontario Service Sector Economy
Number of Firms and Employment (1986)

Industry	Firms	Employment
Construction	35,788	276,054
Transportation	10,374	316,415
Trade	65,818	890,332
Finance	20,241	310,198
Prof. & Business	106,632	80,336
Public Admin.	1,174	427,259
Total Services	240,027	2,300,594

Source: Statistics Canada, Business Microdata
and Analysis, 1987.

INDUSTRIAL STRUCTURE
TABLE 2

ONTARIO SERVICE SECTOR
Number of Firms and Employment
1986

Sector	Firms	Employment
--------	-------	------------

Construction:		
General Contractors	11,519	96,852
Special Trade Contractor	24,269	179,202
Trans, Comm & Util.:		
Transportation	5,288	127,728
Storage	295	4,309
Communications	427	78,944
Elec., Gas, & Water	681	59,248
Trade:		
Wholesale Trade	19,185	260,784
Retail Trade	46,633	629,548
Financial Industries:		
Finance	5,477	153,702
Insurance Carriers	420	50,396
Insurance & Real Estate	14,344	106,100
CB & P. Services:		
Education	2,184	342,751
Health & Welfare Service	18,035	335,058
Religious Organizations	5,911	25,036
Amusement & Recreation	5,150	62,382
Business Management	25,967	308,176
Personal Services	20,266	72,494
Accommodation & Food	18,817	346,273
Miscellaneous Services	10,287	121,338
Public Administration:		
Federal	42	171,635
Provincial	53	110,736
Local	1,017	144,214
Other Gov't Services	62	674

Source: Statistics Canada, Business Microdata
Integration and Analysis, 1987.

INDUSTRIAL STRUCTURE
CHART 1

VALUE ADDED CHARACTERISTICS

High Value Added

Knowledge
Intensive
Skill Intensive
-technical
-interpersonal
White Collar
Internationally
Competitive
Higher Wages

Eg. High
Technology
Finance

Low Value Added

Less Education
Requirements
Less Technical
Skills
"Pink" Collar
Not Competitive
Internationally
Lower Wages

Eg. Personal-
Laundry
Retail

STABILITY
TABLE 1

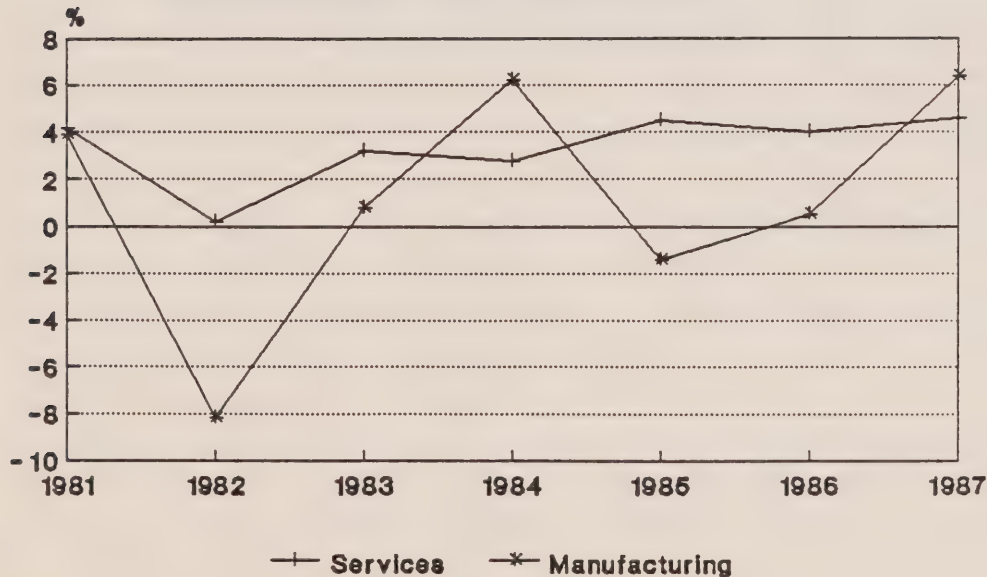
Ontario Employment by Sector
1980-1987

YEAR	Primary (000's)	% change	Mfg. (000's)	% change	Services (000's)	% change	Total	% change
1979	191		1007		2796		3993	
1980	203	6.3	1009	0.2	2841	1.6	4053	1.5
1981	205	1.0	1036	2.7	2930	3.1	4171	2.9
1982	180	-12.2	951	-8.2	2936	0.2	4067	-2.5
1983	184	2.2	935	-1.7	2977	1.4	4096	0.7
1984	175	-4.9	990	5.9	3077	3.4	4243	3.6
1985	182	4.0	1007	1.7	3214	4.5	4402	3.7
1986	162	-11.0	1009	0.2	3383	5.3	4554	3.5
1987	168	3.7	1074	6.4	3539	4.6	4779	4.9

Source: Ontario Statistics, 1986.

STABILITY
CHART 1

ANNUAL EMPLOYMENT CHANGE BY SECTOR
Ontario 1982 to 1987



Source: Statistics Canada Catalogue
15-001P

PRODUCTIVITY
CHART 1

PRODUCTIVITY IN THE SERVICE SECTOR

- Productivity - output/worker
- Quality of output not considered
- Service sector productivity is concerned with:
 efficiency of resource allocation and
 effectiveness of service delivery
- Conventional view of services:
 inherently unproductive
- Recent research disputes this theory:
 increase in employment in Canada
 between 1945-86 in service sector
 relative to goods actually enhancing
 average level of productivity.

PRODUCTIVITY
TABLE 1

PRODUCTIVITY BY SECTOR

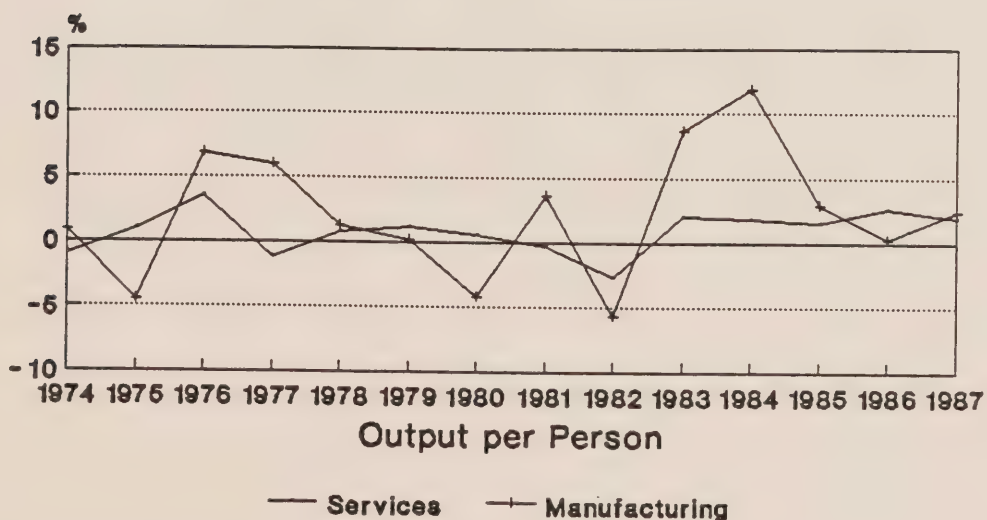
ANNUAL % CHANGE

Year	Output/person		Labour Compensation	
	Services	Manufacturing	Services	Manufacturing

1971	2.9	6.5	6.5	7.2
1972	1.6	4.8	7.3	7.3
1973	1.2	5.9	8.4	7.9
1974	-1.0	0.9	12.3	14.3
1975	1.0	-4.5	11.7	13.2
1976	3.5	6.8	13.0	14.3
1977	-1.2	5.9	6.8	11.0
1978	0.8	1.3	5.2	7.8
1979	1.2	0.2	8.9	9.3
1980	0.6	-4.2	10.2	10.3
1981	-0.3	3.6	9.3	13.8
1982	-2.6	-5.6	9.4	9.4
1983	2.0	8.7	3.7	7.4
1984	1.8	11.9	5.6	5.7
1985	1.6	2.9	5.1	5.4
1986	2.6	0.3	4.1	4.4
1987	1.9	2.4	4.4	5.2

PRODUCTIVITY
CHART 2

LABOUR PRODUCTIVITY
Annual % Change

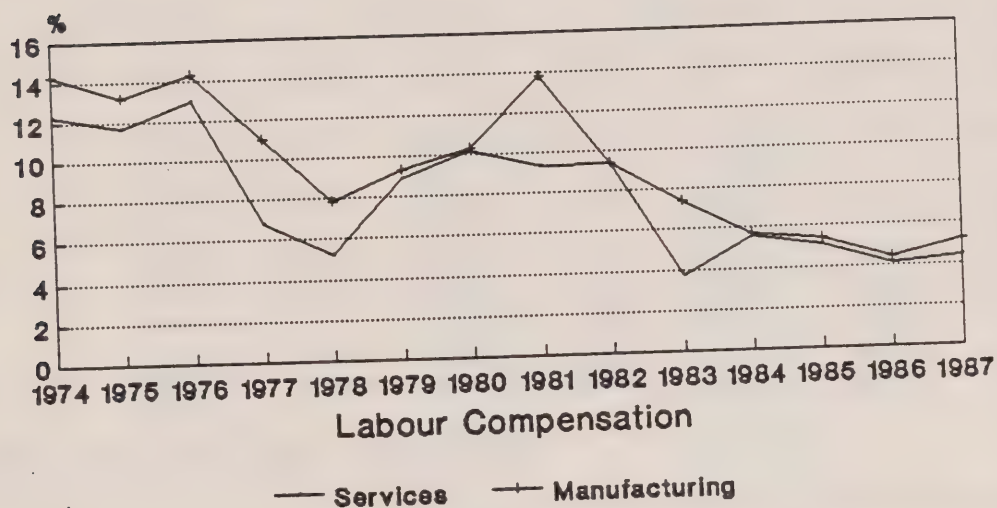


Source: Quarterly Economic Review
Annual Reference Tables June 1988
Dept. of Finance Canada

PRODUCTIVITY
CHART 3

LABOUR PRODUCTIVITY

Annual % Change



Source: Quarterly Economic Review
Annual Reference Tables-June 1988
Dept. of Finance Canada

TRADE
TABLE 1

INTERNATIONAL TRADE BY SECTOR
In Canada (1971-1987)

AMOUNT OF RECEIPTS

INDUSTRY	1971 (\$mill.)	%	1975 (\$mill.)	%	1981 (\$mill.)	%	1987 (\$mill.)	%
TOTAL	\$23,043		\$42,076		\$103,931		\$156,654	
MANUFACTURING	17,783	77.17%	33,615	79.89%	84,432	81.24%	126,125	80.51%
OTHER*	1,873	8.13%	3,121	7.42%	7,052	8.35%	12,441	9.86%
SERVICES	3,389	14.71%	5,339	12.69%	12,447	11.98%	18,089	11.55%
*****	*****		*****		*****		*****	
travel	1,246	5.41%	1,246	2.96%	3,760	3.62%	6,299	4.02%
transportation	1,184	5.14%	1,184	2.81%	4,292	4.13%	4,703	3.00%
business	648	2.81%	648	1.54%	3,631	3.49%	5,971	3.81%
government	177	0.77%	177	0.42%	444	0.43%	637	0.41%
other services	134	0.58%	134	0.32%	319	0.31%	479	0.31%

* OTHER includes investment income and transfers.

Source: Statistics Canada Catalogue 67-001.

TRADE
TABLE 2

INTERNATIONAL TRADE BY SECTOR
&
SERVICE SECTOR INDUSTRIES
(CANADA)

Average Annual Growth Rate

INDUSTRY	1971-81 (%)	1981-86 (%)	1971-86 (%)
TOTAL	15.43%	7.26%	12.55%
MANUFACTURING	16.16	7.17	12.99
OTHER	13.46	10.25	12.33
SERVICES	13.14	6.55	10.81
*****	*****	*****	*****
travel	11.11	9.41	10.51
transportation	13.31	1.75	9.23
business services	17.89	8.82	14.69
government	7.84	8.34	7.31
other	9.92	7.23	8.97

* OTHER includes investment income and transfers.

Source: Statistics Canada Catalogue 67-001.

TRADE
CHART 1

**AVERAGE ANNUAL GROWTH RATE:
IN CANADIAN INTERNATIONAL TRADE
1971-1986**



Source: Statistics Canada 67-001
Other includes investment income and transfers

TRADE
TABLE 3

1986 Service Exports¹

<u>COUNTRY</u>	<u>\$ U.S. BILLIONS</u> ²
Canada	10.81
United States	103.54
Japan	37.40
France	48.20
Italy	21.81
Federal Republic of Germany	47.65
United Kingdom	<u>74.18</u>
Subtotal	343.59
Total Developed Countries	465.70

Source: IMF Balance of Payments Statistics, Volume 38, 1987

1. Services Trade - In order to provide comparisons on service exports at an international level, data has been taken from IMF Current Account transaction records. The information is found under the heading - "Other goods, services and income: Credit" (Items 3, 5, 7, 9, 11, 13, 15, 17, 19, 21, 23, 25, 27, 29 and 31).

2. Conversion Factor - SDR/\$US .818 (1986 IMF International Financial Statistics).

1986 Goods Exports¹

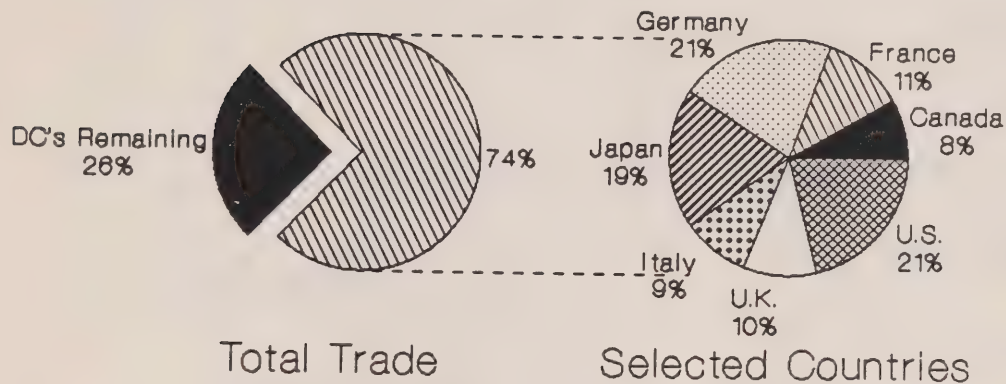
<u>COUNTRY</u>	<u>\$U.S. BILLIONS</u> ²
Canada	62.18
United States	156.47
Japan	143.04
France	82.33
Italy	67.58
Federal Republic of Germany	159.37
United Kingdom	<u>74.41</u>
Subtotal	745.38
Total Developed Countries	1002.97

1. Goods Trade - In order to provide comparisons on goods exports at an international level, data has been taken from IMF Current Account transaction records. The information is found under the heading - "Merchandise exports f.o.b.: (Item 1).

2. Conversion Factor - SDR/\$us .818 (1986 IMF International Financial Statistics).

TRADE
CHART 2

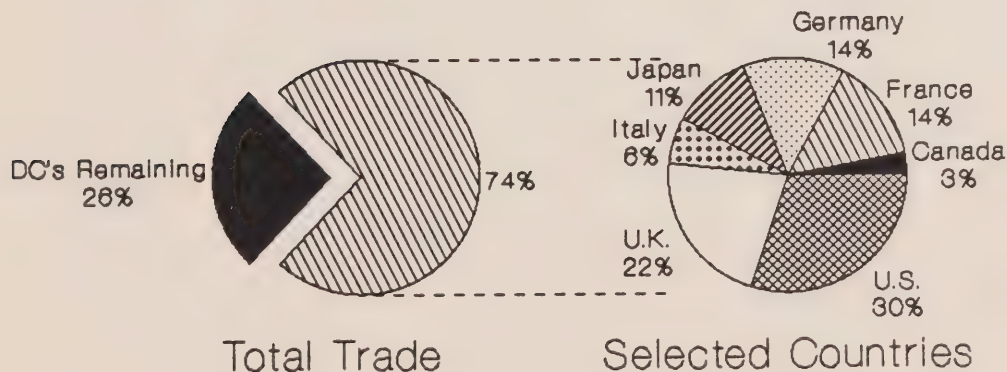
INTERNATIONAL TRADE
Goods: Developed Countries (DCs)
1986 Exports



Source: IMF Balance of Payments Stats.
1987

TRADE
CHART 3

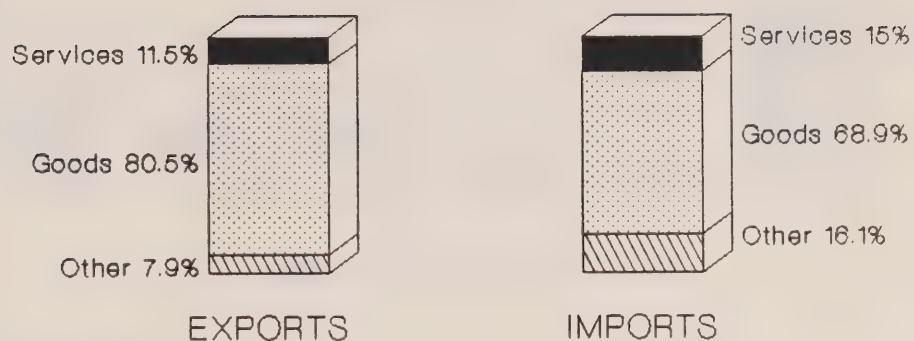
INTERNATIONAL TRADE
Services: Developed Countries (DCs)
1986 Exports



Source: IMF Balance of Payments Stats.
Note: Includes Investment Income

TRADE
CHART 4

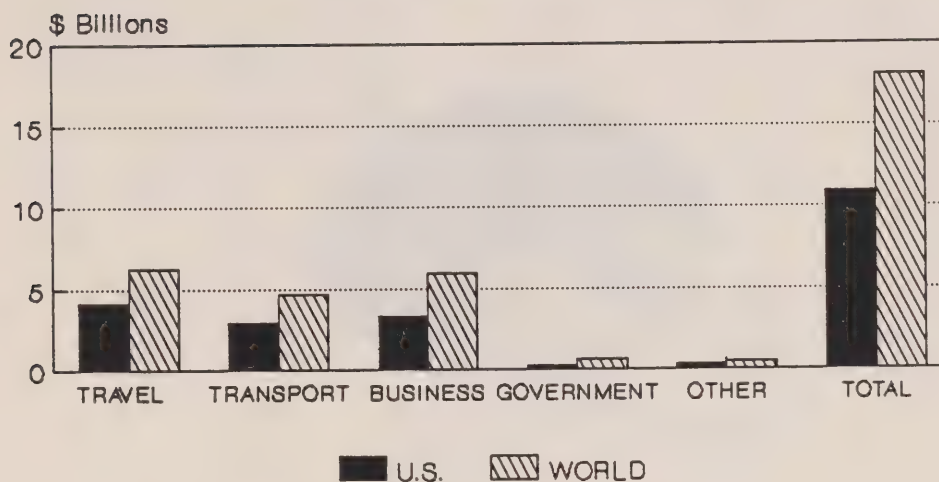
CANADIAN INTERNATIONAL TRADE
1986



Source: Statistics Canada 67-001,
Third Quarter 1987, p17.

TRADE
CHART 5

**CANADIAN SERVICE EXPORTS
TO
U.S. & WORLD (1987)**



Statistics Canada 1987,
Catalogue 67-001.

TRADE
TABLE 4

CANADIAN SERVICE EXPORTS
TO
U.S. & WORLD
(1987)

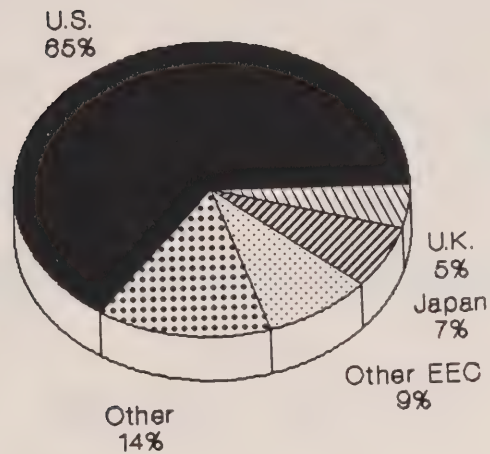
(\$ Millions)

	U.S. ****	WORLD *****
TRAVEL	\$4,160	\$6,299
TRANSPORT	2,905	4,703
BUSINESS	3,318	5,971
GOVERNMENT	260	637
OTHER	312	479
TOTAL	<u>\$10,955</u>	<u>\$18,089</u>

Source: Statistics Canada, Catalogue 67-001, 1987

TRADE
CHART 6

CANADIAN SERVICE EXPORTS
TO
MAJOR COUNTRIES



Statistics Canada, Catalogue 67-001,
1987.

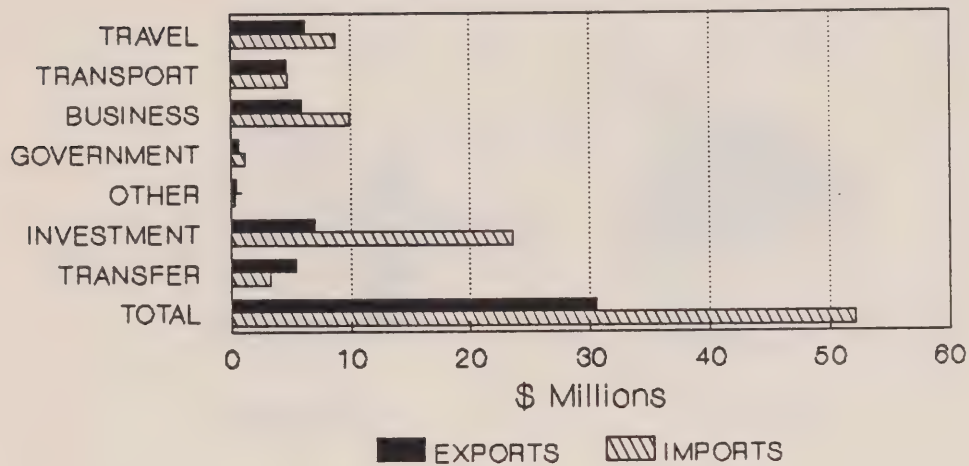
TRADE
TABLE 5

CANADIAN SERVICE TRADE
1987 Exports
(\$ millions)

Country	Exports
U.S.	\$111,809
U.K.	8,362
Other EEC	15,002
Japan	11,894
Other	24,720

TRADE
CHART 7

**CANADIAN BALANCE OF INTERNATIONAL
SERVICE TRADE
(1987)**



Statistics Canada, Cat. 67-001
1987

TRADE
TABLE 6

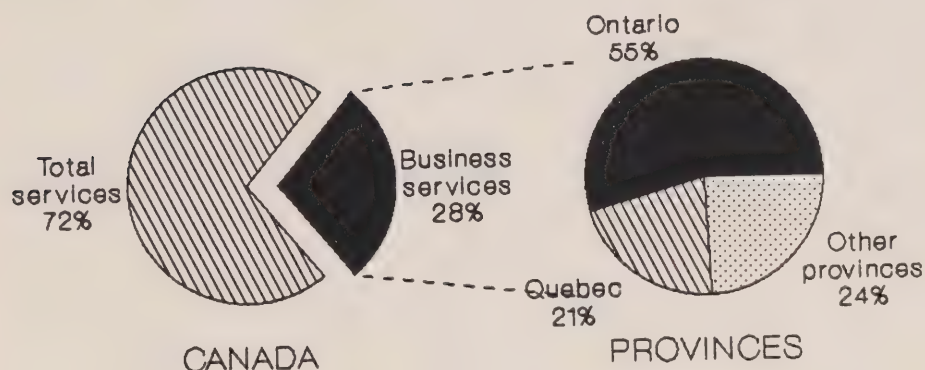
CANADIAN BALANCE OF INTERNATIONAL SERVICE TRADE
SERVICE SECTOR
(1986)
(\$ Millions)

	EXPORTS *****	IMPORTS *****
TRAVEL	\$6,299	\$8,828
TRANSPORTATION	4,703	4,810
BUSINESS SERVICES	5,971	9,923
GOVERNMENT	637	1,202
OTHER	479	371
INVESTMENT	6,988	23,594
TRANSFER	5,453	3,353
TOTAL	\$30,530	\$52,081

Source: Statistics Canada Cat. 67-001, 1987

TRADE
CHART 8

**CANADIAN & PROVINCIAL TRADE
IN BUSINESS SERVICES
IMPORTS (1986)**



Statistics Canada, Catalogue 67-203,
1988

TRADE
TABLE 7

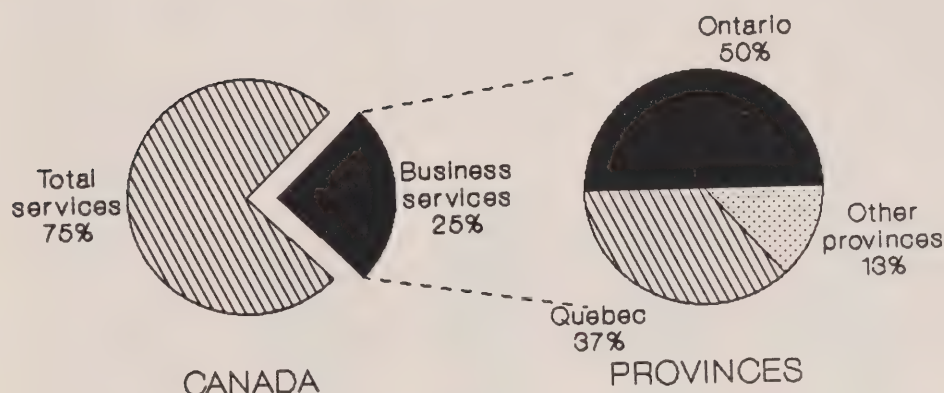
CANADIAN & PROVINCIAL TRADE
IN
BUSINESS SERVICES
(1986)

	IMPORTS (\$ Billions) *****
TOTAL SERVICES TRADE	25.1
Business services	9.9
Ontario business services	5.4
Quebec business services	2.1
Other provinces	2.4

Source: Statistics Canada Cat. 67-203.

TRADE
CHART 9

**CANADIAN & PROVINCIAL TRADE
IN BUSINESS SERVICES
EXPORTS (1986)**



Statistics Canada, Catalogue 67-203,
1988

TRADE
TABLE 8

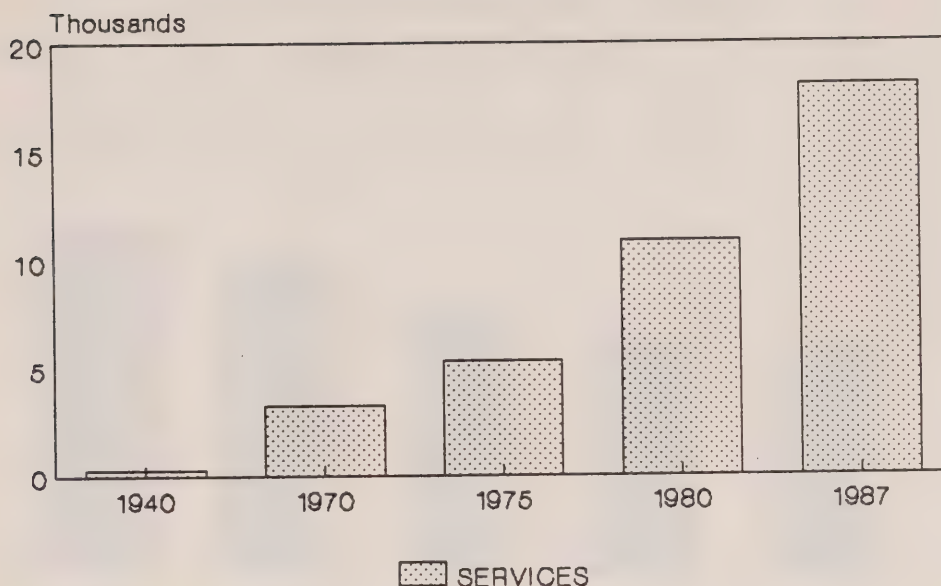
CANADIAN & PROVINCIAL TRADE
IN
BUSINESS SERVICES
(1986)

	EXPORTS (\$ Billions) *****
TOTAL SERVICES TRADE	18.1
Business services	6.0
Ontario business services	3.0
Quebec business services	2.2
Other provinces	0.8

Source: Statistics Canada Cat. 67-203.

TRADE
CHART 10

INTERNATIONAL TRADE



Source: Statistics Canada Cat.
67-001, 1987.

TRADE
TABLE 9

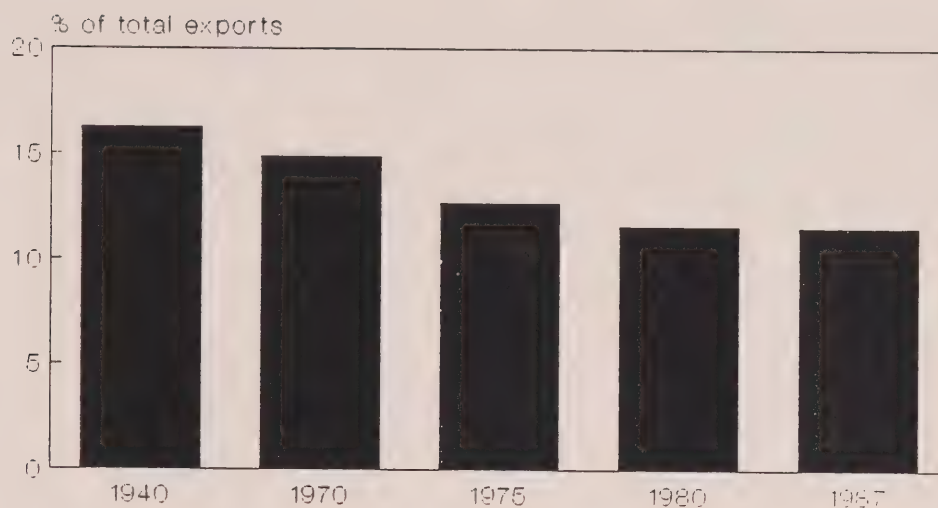
GOODS & SERVICES EXPORTS					
1940 TO 1987					

(\$ Millions)					
YEAR	TOTAL	GOODS	%	SERVICE	%
****	EXPORTS	EXPORTS	****	EXPORTS	****
	*****	*****		*****	
1940	\$1,799	\$1,507	83.8%	\$292	16.2%
1970	\$21,907	\$16,820	76.8	\$3,258	14.9
1975	\$42,075	\$33,615	79.9	\$5,339	12.7
1980	\$93,893	\$76,681	81.7	\$10,898	11.6
1987	\$156,654	\$126,125	80.5	\$18,089	11.5

Source: Statistics Canada Catalogue 67-001, 1987

TRADE
CHART 11

CANADIAN SERVICE EXPORTS:
LONG TERM DECLINE
1940 TO 1987



Statistics Canada, Fourth quarter 1987,
Catalogue 67-001.

TRADE
TABLE 10

CANADIAN SERVICE EXPORTS:
LONG TERM DECLINE
1940 TO 1987

YEAR ****	TOTAL EXPORTS ***** (\$Billions)	SERVICE EXPORTS *****	% ****
1940	\$1,799	\$292	16.23
1970	\$21,907	\$3,258	14.87
1975	\$42,075	\$5,339	12.69
1980	\$93,893	\$10,898	11.61
1987	\$156,654	\$18,089	11.55

Source: Statistics Canada Catalogue 67-001, 1987

General Provincial and Federal Programs for Services*

Department	Program	Eligibility Criteria	Description
M.I.T.T.	Trade Mission Program	Companies having desire and ability to penetrate export markets	Ministry arranges trade missions to foreign markets; arranges appointments with prospective agents, distributors, etc.
M.I.T.T.	New Exporters to Border States Program (NEBS)	ibid. - U.S. market	Teaches basics of exporting to the U.S.; transports Ontario firms to a U.S. entry point for presentations and introductions to exporting procedures
M.I.T.T.	International Marketing Intern Program	Service companies with at least 50% of Ontario value-added	Applicants will train a recent Canadian university or college graduate in international marketing and receive a subsidy equal to 50% of the graduate's salary for 2 years
M.I.T.T.	Trade Expansion Fund (formerly Export Success Fund)	Service companies employing less than 100 persons and having total annual sales of under \$100 million	Financial assistance dependent on export market research and planning; on-site market assessment; product modification and package design; merchandising & promotion; hiring and export manager

*Additional programs supporting specific industries are found in the individual industry profiles.

Department	Program	Eligibility Criteria	Description
M.I.T.T.	New Ventures Program	New business startups except professionals and farm operators	To promote success for new businesses; provide new businesses access to funding through loan guarantees; to ensure entrepreneurs have comprehensive business plan
M.I.T.T./ODC	Export Support Loan Program	Any proposal that makes sense	Supplements services offered by banks, financial institutions and the E.D.C
M.I.T.T./ODC	Loan Guarantees	Each application is assessed and generally geared towards small business and entrepreneurs	Total or partial guarantee of a loan in cases where adequate funding would be unavailable
M.I.T.T./ODC	Term Loans	ibid.	Very selective
M.I.T.T.	Incoming Buyers Program	Companies having desire and capability to export	Ministry brings key agents, distributors and buyers from major world markets to Ontario to meet with Ontario businessmen
M.I.T.T.	International Trade Fairs and Exhibitions Program	ibid.	Ministry rents exhibit space in trade shows abroad for Ontario companies

Department	Program	Eligibility Criteria	Description
External Affairs Canada (EAC)	Cost-Recoverable Technical Assistance Program (CRTA)	Any Canadian company having an export contract requiring expertise	Provides public sector expertise to foreign countries on a gov't-to-gov't basis and Canadian companies involved in export marketing of capital projects
E.A.C.	Program for Export Development (PEMD) (in cooperation with DRIE)	Incorporated firms, partnerships, and professionals	Assistance under 7 categories: 1) Specific Project Bidding; 2) Market Identification Trips; 3) Participation in Trade Fairs Abroad; 4) Invitations to Incoming Buyers; 5) Export Consortia; 6) Sustained Market Export Development Activities; 7) PEMD Food
E.A.C.	Promotional Projects Program (PPP)	ibid.	Sponsors exhibits at trade fairs abroad; promotes export of Canadian services; sponsors outgoing and incoming missions; arranges visits to Canada by foreign buyers and government trade delegations

Department	Program	Eligibility Criteria	Description
Export Development Corp. (E.D.C.)	Export Financing Services	Firms/person with a sale involving the export of Canadian services from Canada	Financial support through loans and lines of credit for foreign buyers of Canadian goods and/or services
E.D.C.	Guarantee Services	ibid.	Guarantees for medium-term transactions to banks or other financial institutions for export transactions of companies
E.D.C.	Insurance	ibid.	Insurance services to protect Canadian exporters against non-payment of foreign receivables and losses on bid and security instruments and foreign investments
D.I.S.T.	Construction and Consulting Directorate	Cdn. companies engaged in real estate dev't., construction, oil field services, consulting engineering, architectural services, surveying and mapping, design, management consulting and other professional services	Promotes productivity, efficiency and competitiveness in construction and consulting industries. Promotes export of these services by organizing seminars and trade missions, updating knowledge on major foreign competitors, sourcing Cdn. suppliers for prospective foreign customers, providing advice for PEMD assistance.

Department	Program	Eligibility Criteria	Description
D.I.S.T.	Small Business Loans	Small business enterprises whose gross revenues do not exceed \$2 million/year in the year of application	Guaranteed loans to purchase fixed or movable equipment; to purchase or build premises; to modernize existing facilities; to purchase land for operation of business
M.I.T.T	Institutional Products and Procurement Section	Any Ontario manufacturer or service company	Assists Ontario companies who want to add new products through joint venture government procurement. Also publishes sourcing directory, "Computer Systems Sources" and directory of Public Sector Buyers
F.B.D.B	Counselling Service	Small to medium-sized Canadian businesses	Counsellors offer advice to businesses for a minimal cost
F.B.D.B.	Financial Planning Services	ibid.	For a fee, assistance to businesses to: 1)develop strategic plan; 2)develop proposals for financing; 3)introduce network of financial backers; 4)do-it-yourself kits on business topics

Department	Program	Eligibility Criteria	Description
Canadian Commercial Corporation (C.C.C.)		Companies must be registered and certified by C.C.C.	In response to foreign governments and international agencies for products or services, it identifies Canadian firms capable of meeting customer's requirements, contract management, inspection, acceptance and payment aspects of each sale
C.I.D.A		Company must be financially sound with a proven track record and resources to pursue the project	Finance studies for projects in developing countries.
M.I.T.T.	Technical Personnel Program	Companies must have between 10 and 200 employees, with exportable goods or services, able to support a project financially, but lacking the technical support needed.	To support small and medium sized firms wishing to increase their technological expertise by subsidizing wages of scientific or technical personnel.

CONSTRUCTION INDUSTRY

The Secretariat has included the construction industry in the service sector since it is engaged in the development of residential, commercial and institutional real estate. The construction sector is composed of firms and labour engaged in these various activities. The Construction Industry Development Council (CIDC) views this industry as a production industry because it produces new capital assets ranging from modest houses to huge energy projects. Industries included are the following:

Building, Developing and General Contracting Industries;
Industrial and Heavy Construction Industries;
Trade Contractors;
Land Developers, and
Project Management Services.

Structure

The construction industry has rebounded from the 1982 recession and has contributed almost 10% of Ontario's real GDP for 1987. Approximately 30 per cent of the value of construction in Canada takes place in Ontario. The industry is basically "mature" in the sense that the bulk of production facilities and infrastructure already exist.

Residential construction has been a major vehicle of growth for the construction industry. Lower mortgage rates, increased migration from other provinces and low apartment vacancy rates are expected to maintain the present state of high growth. Seasonally adjusted housing starts for Ontario for the years 1984 to 1987 show an increase of 95%, from 48,171 to 93,900 starts. This compares with the national average increase of 48% over this time frame.

Non-residential and industrial construction have achieved substantial growth through major construction projects. Some of these projects currently being undertaken in Ontario are as follows:

- Construction of large scale auto assembly plants and major hospital additions.
- Electrical and mechanical operations on Ontario Hydro's Darlington nuclear power station and the proposed Little Northwestern River hydroelectric power station in northwestern Ontario.

- Toronto's dome stadium.
- The Toronto Transit Commission's subway system extension.
- Development of a third terminal at Toronto's International airport.

According to Statistics Canada, the value of construction for Ontario has increased from \$14,408 (million) in 1982 to about \$26,354 (million) in 1987, an increase of about 83%. The statistics used are actual for 1982 to 1984 figures, whereas 1985 numbers are preliminary and 1986 are projections.

The growth in construction will be of benefit to a number of other industries not only in the manufacturing area but also in other service sector occupations.

As of 1987, there were 28,751 firms in the construction industry, employing 240,000 people. This comprised over 5% of total service sector employment.

Breakdown by subsector shows that trade contractors absorbed the largest number of firms (24,269) and employees (179,202) in 1987. The majority of firms fit the small business category, employ less than 20 people, and are local and regional in their operations.

Foreign ownership is an important, but not critical, issue for the industry. The 1984 Calura report (Corporations and Labour Unions Returns Act) indicated that there were 144 foreign-controlled construction companies operating in Canada. This represents 0.24% of the total number of firms. In general, foreign-controlled firms are large companies, while Canadian-owned are small family operations producing projects with high overall Canadian content. Canadian-controlled corporations accounted for 91.5% of assets, 93.1% of sales and 96.7% of profits. The greatest proportion of the industry's firms are family owned with full-time participation by the owners.

Industry Trends

The industry is particularly vulnerable to business cycle fluctuations and recessionary trends in the economy. The peaks and troughs of the business cycle create intensive times of boom or bust for industry members. The 1982 recession greatly affected this industry. It has recovered, however, and is currently enjoying a resurgence in activity.

Construction has traditionally had easy entry and upward mobility, which has provided widespread scope for

individual enterprise, innovation and growth. In order to adapt to business cycles, firms have had to be highly flexible and innovative. Firms tend to be highly specialized and technically competent, thus ensuring a high degree of competition across Canada. The industry is constantly advancing through the use of the latest available technology in terms of machinery, equipment and materials.

The construction industry is technology intensive and becoming an increasingly high-tech industry. Its ability to compete will depend upon technological advancement. The technological edge is gained through education and training programs, information transfer systems, and opportunities to gain practical experience and introduce innovations through research and development activities.

A high proportion of firms are unionized and labour costs account for at least one-third of all costs of construction. No matter what the economic environment, major discrepancies always exist between the demand for and the supply of construction labour.

Skill development is an important issue for this industry. The recession chipped away at human resources as individuals sought jobs in other industries and countries. In order to meet future requirements, training and retraining programs should be launched. According to the article Canada Constructs, project management skills will be in great demand over the next 5-10 years.

Productivity levels have been relatively high in the residential and civil engineering segments of the construction industry. Residential construction benefits from the repetitive nature of the work, the ease of supervision, and the high motivation levels of project staff. Larger projects do not achieve the same productivity levels due to their customized nature and complexities. Canada Constructs includes the following items as factors that affect the level of productivity:

- the calibre of design and working drawings;
- the type, size, location and scheduling of the project;
- the availability of suitable labour, materials and equipment;
- the speed of the decision making process for permits, changes and extras;
- the motivation and cooperation of those working on the project;
- the advancement of technology;
- the level of safety.

The CIDC recommended that a centre for construction productivity be established to undertake studies and data collection and identify opportunities for productivity improvement.

Regulatory Environment

The construction industry is subjected to a myriad of regulations administered by all levels of government. The federal government influences the overall domestic performance of the construction industry through a wide range of taxation, procurement and environment policies. The provincial government sets building standards that are administered by municipalities. Most government regulations have been developed for the specific purpose of increasing public safety or for the protection of public interest. The industry finds that most regulations are onerous and time consuming and they would like the government to undertake some form of regulatory reform.

Government Initiatives

The export performance of the industry is assisted by federal agencies and programs such as the Export Development Corporation (EDC), the Canadian International Development Agency (CIDA) and the Program for Export Market Development (PEMD). The Ontario Building Industry Strategy Board also provides aid to this industry. The Ontario Ministry of Housing's Export and Market Development Program assists all suppliers of construction-related goods and services in their exports through trade shows and trade mission participation.

Trade Issues

International agreements - There is no international agreement dealing solely with the construction industry. However, a variety of other sectorial and bilateral agreements have an impact on components of the construction industry. These include professional licensing and mobility, building standards, government procurement and liability insurance.

Non-tariff barriers - Few NTBs are directed specifically at the construction industry, although the industry is influenced by NTBs such as immigration laws that protect skilled trades, labour mobility, liability insurance, and domestic standards for engineering and construction.

Free trade implications - Canadian construction sales billings to the U.S. are estimated at about \$200 million a year. A free trade agreement with the U.S. does not appear to cause the Canadian construction industry many problems. There is some concern that a trade arrangement would weaken industrial development policies and inhibit marketing support programs and government financial assistance for Canadian exports. On the other hand, under a free trade agreement, the Canadian construction industry would enjoy easier labour mobility for business purposes, easier accreditation of individuals, unimpeded movement of equipment for service contracts and access to government procurement.

Trading situation - Until recently the domestic construction industry was buoyant. This, coupled with the fact that contractors tend to be small, highly specialized firms lacking the financial resources to enter higher risk export markets, has meant that few have ventured outside the domestic market. A small nucleus of contracting companies have exported their expertise and management skills successfully over the years to the U.S. and overseas, primarily to the developing countries. In order to gain experience and establish a professional presence and track record, Canadian companies have tended to rely on CIDA and EDC sponsored projects rather than seek offshore work without Canadian financing. The size of the world construction market is unknown although it is estimated that the top 250 international contracting firms undertake contracts totalling \$100 - \$135 billion (U.S.) per year. Increased exports would appear to represent a significant long-term opportunity for the Canadian construction industry.

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DISTRIBUTIVE TRADES

Distributive trades include those companies that deal with distributing goods and services to all areas of the general public, be it commercial establishments or private households. The Secretariat has included the following trades in this category:

- Trading Houses;
- Retail Trade;
- Wholesale Trade;
- Direct Sellers;
- Co-operatives;
- Middlemen and Marketing Boards.

Trading houses are companies that specialize in the exporting, importing and third-country trading in goods and services produced or provided by other parties. Retail trade is the sale of merchandise and related services to the general public for household or personal consumption. Wholesale trade buys merchandise for resale to retailers; to industrial, commercial, institutional, farm or professional business users; and to other wholesalers. Wholesalers may act as agents or brokers in buying or selling merchandise to persons or companies on a commission basis. Direct sellers are concerned with retail marketing of consumer goods to household consumers by a direct transaction between buyer and seller rather than through regular retail store outlets. This includes personal selling, home delivery, sales from the manufacturing premises, mail order sales, exhibitions, fairs, market stalls, or newspaper coin boxes. Co-operatives are run jointly by its members and primarily sell to the public. Middlemen and marketing boards act as intermediaries between producers and consumers.

Structure

Wholesale and retail trade industries in Ontario are estimated to account for over 17% of provincial real GDP in 1987. Retail trade for Ontario in 1986 achieved \$53,412 billion in sales for all stores. This represented an 8.9% increase over sales registered for 1985, which is higher than the 8.1% growth registered for Canada as a whole. Ontario has the highest percentage of retail sales activity in all of Canada, most of which occurs during December. The highest-grossing retailers in 1987 were motor vehicle dealers, with sales of \$12.9 billion, while furniture dealers were the number one retailers in Canada in terms of growth. Only service stations and variety stores experienced negative growth in 1986 from the 1985 rate. By comparison, used car dealers, book and stationary stores, sporting goods stores, and hardware stores increased their sales by over 20% during the same time period.

As of 1986, there were 46,633 firms in Ontario specializing in retail trade activities. These firms employed more than 630,000 individuals and accounted for almost \$8 billion in salaries and wages. Ninety-three percent of all firms in Ontario were in the small business category and accounted for 35% of all retail trade employment.

There were 19,185 wholesale establishments in Ontario in 1986. Over 22,000 were in the wholesale merchant category, while brokers and agents accounted for 1454 firms. This represented \$77.3 billion in net sales and receipts and over \$10 billion in year-end inventories. These firms employed over 260,000 people and generated \$5.6 billion in salaries and wages. As in the retail trade, Ontario has the largest proportion of wholesalers in Canada, and is responsible for almost 40% of total Canadian net sales and receipts. Food wholesalers, followed by coal, coke and petroleum wholesalers, undertake the largest volume of trade in Ontario and Canada.

The wholesale and retail trade industry in Canada is dominated by a large number of small Canadian-controlled businesses. The over 128,000 firms that make up the industry accounted for 81.2% of sales in 1984. Foreign-controlled companies comprised 1,528 firms and accounted for 18.7% of sales.

As of 1986, there were 159 trading houses in Ontario. According to a federal government task force on trading houses, titled Promoting Canadian Exports: The Trading House Option, trading houses could employ about 6,000 people inside and outside Canada. It has been estimated that trading houses in Ontario account for the employment of approximately 1,000 people. Large firms with total exports over \$100 million constitute 87% of all export transactions in Canada.

The Task Force found that 183 of the 201 trading houses in the survey were Canadian-controlled and these firms represented two-thirds of total export activities. These firms are predominantly small in size. The vast majority of Ontario firms are located in Southern Ontario.

Total direct selling sales in Canada were \$2.5 billion for 1985, a 2.8% increase over 1984 sales. Personal selling was the most popular method of sales at \$814

million, followed by mail order sales at \$624 million, sales by home delivery at \$589 million, sales from the manufacturing premises at \$344 million and sales by all other methods at \$135.6 million. Among the five major commodity groups (which are foods; books, magazines and newspapers; electrical appliances and household cleaners; cosmetics and jewelry; and all other commodities), books, newspapers and magazines ranked first, at \$760.5 million in sales. Newspapers, magazines and books posted the largest increases in dollar sales volumes over 1984.

In 1985, there were 3,516 co-operatives in Canada with a membership of almost three million individuals. Business volume, which includes total sales, service revenue and other income, was \$14.5 billion. Three hundred and eighty-two associations are located in Ontario, with almost 160,000 members. The Ontario co-operatives accounted for over \$1 billion in business volume which includes sales of \$921.8 million. Co-operatives are comprised of a number of different sales areas. Product marketings include farm products such as grains, fish, oilseeds, eggs, etc. Consumer and supply sales include food products, dry goods and home hardware and other consumer goods. Agri-supply sales include animal feed, fertilizers, seeds and farm supplies. Other sales areas are machinery, vehicles and parts, petroleum products and building materials. In 1985, the largest volume of business in Ontario was reported by the petroleum products sales sector, which accounted for \$148.9 million.

Commodity marketing boards are generally agricultural and primarily operate at the provincial level. Three main federal boards are the Canadian Wheat Board, the National Farm Products Marketing Council, and the Dairy Support Program. There are almost 30 boards at the provincial level. Except for the Canadian Wheat Board, the agencies are fully integrated federal-provincial institutions. The Acts that empowered the marketing boards were created as a response to great instability in the markets. Supply management, or quotas, were perceived as the solution to this instability in a closed Canadian market. The system was beneficial to consumers, in that it provided them with a steady supply of products without wild fluctuations in prices. It had a negative impact on productivity, however, since it rewarded those producing at the time the plans were established, but imposed high debt payments on new entrants .

Receipts to farmers using the 136 national marketing boards to market their produce in 1984-85 was \$11.5 billion. Ontario's 23 marketing boards in 1984-85 were responsible for over \$3 billion in producers' receipts and represented 77,417 producers.

Industry Trends

The size and composition of the retail trade sector largely depends on the level of wealth and rates of real economic growth. As incomes rise, a smaller proportion of income is spent on food and a larger proportion on luxury goods and services. Climate, holidays such as Christmas and Easter, and occasions such as birthdays and Mother's Day greatly influence retail sales. Other factors which may have some influence on the changing nature of retail trade in Canada include: changes in real disposable income; the increase in the participation rate of women in the labour force and changing demographics. Retailers must be flexible in order to provide a wide range of store hours as dictated by consumer preferences and municipal and/or provincial regulations. The sector must also be flexible in terms of working arrangements. There is a high degree of employee turnover and a low level of unionization.

Retail outlets have experienced a shift in composition over the last couple of decades through the implementation of self-service and larger stores that can achieve economies of scale. Technological changes through the use of computers for stock taking and electronic cash registers with laser screening of bar-coded purchases have revolutionized the industry. A trend is towards more superstores, specialty shops for fresh foods, tools, and leisure goods, and longer shopping hours. The employment composition may change, as the advent of technology means fewer cashiers and checkout clerks are required. This shift, however, in employment may be offset by longer working hours.

Smaller trading houses tend to be responsible for the export of inedible end products that are labour-intensive operations. These firms appear to concentrate in small fragmented markets such as Mexico or the Caribbean. Larger trading houses centre on commodity-oriented products in competitive markets where international trading rather than international marketing skills, are involved; as a result, their operations are more capital-intensive. Trading houses have been estimated to account for up to 13% of all Canadian exports, and 40% of all exports to non-U.S. destinations. Ontario's share of trading house exports was

35%. The trend is towards a decline in the overall number of firms, which will enable the industry to rationalize operations. Although the number of new entrants is high, new firms are usually established by entrepreneurs, not traders. Since these entrepreneurs lack the training and skills necessary to help develop the industry, these firms tend to go bankrupt. The average age of trading house firms is eight years, with a few large organizations in business for 30 years.

Regulatory Environment

The retail trade sector faces a myriad of taxes and legislation. The Ontario government administers the Gasoline Tax Act, the Fuel Tax Act and the Tobacco Tax Act, each of which affects a particular segment of the retail market. In addition to these Acts, the Retail Sales Tax Act authorizes the tax collected by vendors from consumers at the time of purchase.

The Retail Merchants Association of Canada is a non-profit service association. It offers benefits ranging from assistance in buying and selling equipment to legal advice pertaining to commercial and business affairs.

Two middlemen associations are the Canadian Association of Wholesale Sales Representatives (CAWS) and the Canadian Food Brokers Association (CFBA). CAWS is a non-profit association that represents commission sales agents in the fashion industry on a national level and coordinates trade shows for the fashion retail buyer. CFBA is responsible for improving business conditions for the food industry.

There is no specific legislation aimed at regulating trading houses. They have to abide by the more general regulations regarding incorporation that are adhered to by most businesses. Trading houses can qualify for membership in the Council of Canadian Trading Houses (CCTH) after fulfilling the following criteria: they must have been in operation for at least one year and they must supply references from two clients, two CCTH members, and one bank manager or professional who must attest that they are engaged in trading house activities.

The Canadian Direct Marketing Association is a self-regulatory body responsible for enforcing its code of ethics and standards of practice among its members. These standards include adherence to postal laws and regulations, and laws governing advertising and business conducted by mail, telephone and the print and broadcast/electronic media.

The Canadian Dairy Commission is the federal government's agent in administering the federal dairy program. National production and marketing plans for industrial milk are developed by the Canadian Milk Supply Management committee. Provincial agencies administer producer quota allocations, while the federal government implements import protection and administers a domestic price support scheme.

Government Initiatives

The distributive trade sector is assisted by the Ontario Small Business Development Corporations Program (SBDC), which encourages private sector investment in small businesses in Ontario. The Federal Department of Industry, Science and Technology provides assistance through the Wholesale and Retail Trades Program as well as the Distribution Services Division.

Ontario has no clear policy position on the trading house industry. At present, the Export Consulting and Advocacy branch in the trade division of MITT deals with the trading house sector. Trading houses are eligible for all export development programs in the Ontario government as well as the SBDC program. However, it appears that this assistance has not been greatly utilized.

Funds are available federally through PEMD (Program for Export Market Development), PPD (Promotional Projects Program), EDC (Export Development Corporation) and CIDA (Canadian International Development Agency). These services were used only marginally by trading houses in 1983-84.

Trade Issues

International agreements - The providers of distributive services are not subject to any specific international agreement. However, since their service is part of the flow-through process of commodities, they are subject to international regulations on commodity transactions and transportation.

Non-tariff barriers - NTBs particular to the distribution industry would be exogenous and only indirectly affect the industry. Licensing arrangements, cabotage laws/agreements, preferential freight rates, etc. would affect distributive industries.

Free trade implications - A reduction on tariffs for commodities and a lessening of regulatory barriers for entry of hard goods, etc. will have an impact on the industry. The economic impact of a free trade agreement is difficult to predict, as it will largely depend on the competitive nature of the Canadian industries that the distributive industry serves.

Trading situation - Many Canadian companies involved in the distributive trades are internationally competitive. Most of the Canadian firms, however, are of modest size and do not compete on the same scale as Japanese or European firms.

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FINANCE INDUSTRIES

The financial industry in Canada is made up of eight distinct types of institutions:

Banks;
Insurance Companies;
Securities Firms;
Trust and Loan Corporations;
Credit Unions;
Financial Conglomerates and
Finance Companies (which include sales finance companies, leasing firms and venture capital firms).
Real Estate Brokers and Agencies

Banks, life insurance companies, securities firms and trust and loan corporations constitute the "four pillars" of the Canadian financial community and account for the largest proportion of the activities of the industry. (Credit unions are sometimes referred to as the fifth pillar of the financial industry). Table 1 shows the assets of the four pillars and the percentage of financial systems assets they control.

Table 1

FINANCIAL ASSETS OF CANADIAN FINANCIAL INSTITUTIONS 1985

<u>INSTITUTIONS</u>	<u>DOLLAR ASSETS</u>	<u>PERCENT</u>
BANKS	\$443.8	50.6
INSURANCE	\$111.9	12.8
TRUST & LOAN	\$ 74.1	8.4
SECURITIES	\$ 1.5	2.0

The financial industry and financial institutions in Canada are in the process of an evolutionary change. The major changes occur within their regulatory environment, the level of domestic and international competition with which they must come to grips, and in the technology which facilitates the expansion of the industry. This evolution will be shaped, in large part, by the decisions taken by federal and provincial governments in the next couple of years. Indeed, the debate on the shape and structure of the financial industry is well underway. In the past two years some sixteen different reports (e.g. The Regulation of Canadian Financial Institutions: Proposals for

Discussion; New Directions for the Financial Sector; Task Force on Financial Institutions; Perspective for Growth in B.C.'s Financial Sector) have been produced by the federal and provincial governments in Canada and deal with the regulation of financial institutions. The recommendations developed in these reports, if and when implemented, will impact in various ways on the development of technology in the industry, the level of inter-industry competition, the growth of the financial industry at the provincial, national and international levels, the services and products offered by the various financial institutions, and the solvency and safety of financial institutions.

The rapidly changing nature of the financial services sector precludes the development of a profile that takes into account all facets of the industry on a global basis. The construction of such a profile is best developed on a segment by segment basis.

Structure

Banks - The size and scope of the Canadian banking system depends on a number of factors. The size of chartered banks depends on whether both schedule A and B are included, if the bank's mortgage loan subsidiary companies are calculated, and if the world assets of the chartered banks are included. As of 1985, Canadian chartered banks controlled about 60% of all assets held by Canadian financial institutions. This percentage of control has remained consistent over the last 10 years. In real terms the global assets of Canada's chartered banks have grown from \$73.4 billion to \$124.6 billion, representing an annual growth rate of 9.3%.

In comparison to industrial corporations, chartered banks are significantly large players on the national economic scene. In terms of assets, Ontario Hydro with \$29 billion worth of assets and Canadian Pacific with \$21.4 billion worth of assets ranked number 1 and 3 respectively as the largest industrial corporations. Yet the Toronto Dominion Bank, with \$50.2 billion in assets, is larger than both combined. If net income in the absolute sense were used as a measure of comparison, then the Royal Bank with \$488 million would fall between Imperial Oil and Seagram Co., which ranked 3 and 4 in terms of net income.

The Canadian system of branch banking has led to the establishment of an extensive network across Canada. As of January 1986 there were 7,007 bank branch offices across the country. This was down marginally from the high of 7,439 branches in 1979. In 1986 there were 2,772 bank

branches in Ontario. Eighty-five percent of all branches serve communities with less than 10,000 people. Across Canada banks serve 752 communities that have no other financial institution. Three hundred and seven of these communities, with a combined population of 539,826, are located in Ontario.

In 1985 total employment in the banking industry in Canada was approximately 170,000, of which 47% were in Ontario. About 87% of the Ontario-based positions are full-time. Women represent almost three-quarters of the total number of full-time bank employees, although they tend to be concentrated in administrative support and junior management and supervisory levels. In 1984 women occupied only 28 of about 2,000 senior management positions.

Insurance - The insurance industry in Canada consists of three major components: life and health insurance, property and casualty insurance and reinsurance. (The reinsurance industry in Canada is very small).

In the life and health insurance industry in 1983, there were 257 companies registered to underwrite business in Canada, including 71 fraternal benefit societies. In Ontario in the same year, 131 life insurance companies and 36 fraternal benefit societies were licensed. Although there are a large number of life insurance companies, the ten largest received about 65% of the total net life insurance and annuity premiums in Canada. The market share of these ten firms was the same in Ontario.

In terms of assets, life insurance companies rank second only to chartered banks. In 1984 the total assets of 10 of Canada's largest life insurance firms totalled \$61,478 million. Life insurance firms are also major players in the national economic picture. In terms of assets the two largest Canadian firms ranked 13th and 14th largest in North America and nine Canadian life insurance companies are ranked among the largest 50 companies in North America.

The life insurance industry employed a total of 59,300 people in 1984. Approximately 35,100 worked in administration, with 26,100 working in head offices located mainly in Toronto. Employment in life insurance firms had the greatest growth rate in Ontario. Total employment in Ontario increased from 24,250 in 1971 to 31,200 in 1983, an average annual gain of 2%.

The second largest component of the insurance industry is the property and casualty business. At the end of 1983 there were 314 property and casualty companies in operation

in Canada. In Ontario the figures were 268 property and casualty companies and 51 farmer's mutuals. In 1984, \$10.1 billion worth of premiums were written. The 10 largest firms in Canada collected \$3.8 billion of that amount, taking 38% of the total market share for premiums. Ontario's 10 largest firms received 42.6% of the total premiums.

Foreign ownership dominates the property and casualty insurance business. Only three of the 10 largest firms are Canadian-controlled and their share of the net premiums is about 33%. In Ontario only two of the 10 largest are Canadian-controlled and account for 28% of the premiums.

The property and casualty insurance market is not one particular market. It is a collection of various sub-markets dealing with liability, automobile and property insurance. Some firms compete only in specific markets. The selection of markets to enter reflects the expertise of management of a particular company and the perceived profitability or riskiness of a particular market.

Detailed information on employment in the insurance industry is not differentiated between the life insurance industry and the property and casualty insurance sectors. The Insurance Bureau of Canada has compiled estimates of employment levels in the property and casualty industry since 1976, and these estimates suggest the level of employment in 1982 was about 20,000 people.

Trust and Loan - As of the end of 1985, there were 32 federally-incorporated loan companies, 11 provincially-incorporated loan companies, 34 federally-incorporated trust companies and 58 provincially-incorporated trust companies. Included in the loan industry are 13 federally-incorporated mortgage loan subsidiaries of chartered banks.

At December 31, 1985, the total assets of the loan and trust industry in Canada reached approximately \$77 billion. The 10 largest loan and trust firms held \$63 billion, or 81%, of the total assets of the industry. These assets do not include estate, trust and agency assets under their control. It is estimated that these administered assets totalled \$102 billion in 1983.

Employment in Canadian trust and loan companies rose from 16,134 in 1973 to 28,387 in 1981, an average increase of 7.3%. It is estimated that employment in the industry will rise at an average rate of 1% per year between 1985

and 1995. Part-time employment is expected to account for a greater proportion of total employment, rising to 21% by 1990, compared to only 15% recorded in 1981.

Securities - There are 97 Canadian-owned investment dealers. Of these only the 10 largest or so control more than \$10 million in assets. (With the implementation of new securities legislation in Ontario, the ownership structure of these firms, and thus the assets under their control, will change rapidly. Therefore, all numbers and facts in this profile are subject to change.)

The largest Canadian investment firms are Dominion Securities Pitfield, Wood Gundy, Gordon Capital, Burns Fry, McLeod Young Weir, Richardson Greenshield and Nesbitt Thompson. Of the largest 16 firms, 10 are fully-integrated, providing a complete range of services on a national and international basis. Most firms, however, concentrate on a narrow range of activities or restrict their activities to a particular part of the country. Until the recent proposals by the Ontario government allowing foreign and institutional ownership of securities firms, the industry was largely organized as partnerships, with very few firms having publicly traded stocks.

Investment dealers consist of members of the Investment Dealers Association of Canada (IDA) and they are usually, though not necessarily, members of one or more of the five Canadian stock exchanges. An investment dealer's primary function is to bring together those who have and those who need capital and to facilitate changes in the ownership of the resultant financial assets. In carrying out this function, a dealer engages in four broad categories of activities: stock brokerage, underwriting and distribution of new issues of government and corporate securities, provision of secondary markets other than those listed with securities firms and trading between investors, and counselling the providers and users of capital.

The IDA reports that at the end of 1985 their members employed 20,292 people in Canada. This figure can be assumed to account for 90% of industry employment, since IDA members handle 90% of all Canadian securities transactions. It is estimated that half of these employees are located in Toronto. Employment levels among securities dealers fluctuate from year to year, but there has been significant growth in the industry as a whole over the past five years. This trend is likely to continue.

Credit Unions/Caisses Populaires - Credit unions and caisses populaires, sometimes termed the fifth pillar of the financial community, are unique among deposit-taking institutions. In simple terms, a credit union or caisse populaire is a co-operative savings and loan institution organized on a local basis among a group of people to encourage thrift and to provide its members with a ready source of credit at reasonable rates of interest.

The system of credit unions is organized into three levels: local credit unions, provincial "central" leagues or associations, and the national central. Although local credit unions are autonomous, the advantages to being members of larger organizations prompt almost all local credit unions to join some form of provincial association. The leagues provide technical assistance to locals especially at the organizational stage. In some provinces, including Ontario, the leagues also assist in supervising accurate accounting practices and solvency requirements. Provincial centrals also provide financial services to the locals, acting somewhat like a credit union for credit unions.

Ontario's 859 credit unions and caisse populaires operate within three leagues: Credit Union Central of Ontario, L'Alliance and La Federation. Forty-seven locals are not affiliated with any central. The Credit Union Central is the largest: it has 747 members whose total assets approximate \$5 billion. L'Alliance has 11 members with assets of \$163 million and La Federation has 54 members with assets of \$835 million.

The credit union movement is unique among financial institutions in Canada in that a large percentage of their staff is made up of unpaid volunteers. In Ontario volunteers make up 40% of total credit union staff. Credit unions in Ontario employ 4,057 full time staff, 1,656 part time staff and 4,020 volunteer workers. The total salaries and benefits paid out to credit union employees in Ontario is slightly in excess of \$110 million per year.

Industry Trends

Banks - The major trend in the activities of banks is their shift from earning fees through interest rate spreads to providing merchant banking services. Merchant or investment banking services generally include underwriting and trading in securities, advice on financial restructuring for corporations and advice on arranging acquisitions and mergers.

Banks are the only Canadian financial institution solely under federal regulation. The Bank Act is reviewed at 10 year periods to ensure that the operations of banks reflect government monetary policy. The next review of the Bank Act is scheduled for 1990, although discussions on changes to the Bank Act in light of provincial deregulation and international changes are already taking place.

Insurance - There are two significant trends impacting on the insurance industry in Canada. First, the popularity of life insurance as a savings vehicle is in decline. It is estimated that in the early 1960s life insurance policies accounted for nearly 25% of personal savings each year. By the 1980s this percentage had dwindled to 12.5%. The main reason for the decline is the increase in the variety and types of savings vehicles offered by other financial institutions; these vehicles provide a greater return on investment and liquidity.

The second major trend impacts on the property and casualty business. The trend towards awarding massive liability damages has put the cost of this type of insurance out of reach to many private, professional and institutional purchasers. For example, premiums for medical malpractice in the U.S. can run as high as \$50,000 per year. A number of school boards in the U.S. have closed schools because they cannot afford liability insurance. The U.S. trend is catching on in Canada, as court awards for personal and property accidents soar to unheard-of heights and premiums climb correspondingly higher. It is impossible to forecast where this will lead. On the one hand, there is a desire on the part of the public to reduce, or eliminate, all personal risk through insurance coverage. On the other, the cost of minimizing risk has become too costly for many.

Trust and Loan - In the past 15 years trust and loan companies have undergone dramatic changes in both ownership structure and markets served. With respect to the ownership structure of all trust companies in Canada, the five largest are controlled by Canadian financial holding companies. The cross selling of financial products and, eventually, one-stop financial shopping seem to be among the major goals of these firms.

With respect to markets, the apparent trend is the acceptance of shorter term liabilities and assets. The trust firms have increased their consumer lending and appear poised to make a major drive in the commercial loan markets.

Unlike the chartered banks, which cannot have a single shareholder with more than a 10% voting interest, loan and

trust companies may be owned by one individual or holding company. The five biggest loan and trust companies are in fact either directly or indirectly controlled by large holding companies.

<u>Trust and Loan</u>	<u>Assets</u> (\$000)	<u>Ownership</u>
Royal Trustco Ltd.	\$24,518,000	Trilon
National Victoria & Grey	\$10,934.278	E-L Financial
Central Guaranty Trustco	\$ 9,938,963	Central Capital Corp. (*)
Montreal Trustco Inc.	\$ 4,662,264	Power Corp.
General Trustco of Canada	\$ 4,139,869	Alliance -Industrial Financial

(*) These are recent ownership changes.

(Source: Canadian Business, "Corporate Canada's 500 Biggest Winners", June 1988.)

The concept of financial holding companies was first developed in the U.S. and U.S. companies are much larger than their Canadian counterparts. For example, the American Express Company, one of the largest financial holding companies in the U.S., had corporate assets of \$74,777 million (U.S.) in 1985, while Trilon Financial, one of Canada's largest financial conglomerates, had assets of about \$10,831 million (U.S.) in the same year.

American holding companies are allowed to own a controlling interest in banks, securities firms and insurance firms as well as other related financial institutions. Canadian firms have been restricted from owning more than 10% of a domestic chartered bank and, until June 1987, of an Ontario Securities firm. Also, in Canada federally-incorporated insurance firms are restricted from owning more than 30% of a downstream company. The result is that financial holding companies in Canada tend to be composed of trust and loan companies, stock life insurance firms, property and casualty insurance companies and other quasi-financial service companies such as real estate agencies and mutual fund distributors. The very size of these organizations raise concerns about corporate concentration as well as the regulation of the financial community. Also of some concern is the control of many of these financial conglomerates by a single investor or a small group of investors who also control many large non-financial corporations. For example, Trilon Financial Corp. is controlled through Brascan Holdings by

the Bronfman family, who also control or have major investments in corporations such as John Labatt's, Noranda Mines and Trizec. The combining of financial and non-financial corporations leads to a potential conflict of interest.

The following table highlights the assets of the major financial holding companies in Canada compared to the assets of the major chartered banks in Canada.

<u>Holding Co.</u> (1987)	<u>Assets</u> (\$Millions)	<u>Banks</u> (1987)	<u>Assets</u> (\$Millions)
Trilon Financial	\$27,254	Royal	\$102,170
Imasco	\$26,854	CIBC	\$ 88,374
Central Capital	\$12,530	Montreal	\$ 84,227
Laurentian	\$ 9,699	BNS	\$ 71,429
First City	\$ 4,747	TD	\$ 54,525
Power Financial	\$ 1,466	National	\$ 29,978

(Source: Business Canada, "Corporate Canada's 500 Biggest Winners", June 1988.)

Securities - The securities industry in Canada is undergoing significant changes. The driving forces bringing about these changes include the globalization of financial markets, deregulation in the securities industry and the interpenetration of traditional markets by all financial firms (the breaking down of the "four pillars"). It is too early to predict exactly what significant changes will occur. However, the early trends suggest that the Canadian securities industry will become U.S. owned and controlled.

Credit Unions/Caisses Populaires - The size of the credit union/caisse populaire movement in Canada and Ontario has grown rapidly since the 1950s. During the 1968-1978 period, membership grew by 93% and total assets grew by 500%.

The credit union movement in Ontario has been experiencing difficulties since the late 1970s. Due to poor asset management, inadequate lending practices and mismatching of liabilities to assets, the Ontario industry has a deficit of \$79 million. This huge deficit threatens to bankrupt a number of member credit unions unless some form of government assistance is provided. Part of the problem has been the rapid growth of these organizations. During the period 1968-1978, membership grew by 93% and total assets by 500%. Many of the original officers of these organizations were volunteers who shared the

philosophy but did not possess the necessary financial skills to manage the growth of the credit union movement. This problem was further exacerbated by the fluctuating levels of interest rates in the late 1970s and early 1980s. The credit union movement is now at a crossroads. Credit unions face increasing competition from all other sectors of the financial community, except for insurance firms, but do not possess the management skills, financial assets or economies of scale to take advantage of the rapidly changing nature of the financial market. It appears that the credit union movement in Ontario will need to revert to its traditional market of individual depositors and borrowers and operate within its historical niche of providing members with easy access to loans and higher interest rates on savings deposits. In the immediate term, some form of financial and technical assistance from the government will be needed if a number of credit unions in Ontario are to stay in business.

Trade Issues

International agreements - Currently no international agreement exists limiting the right of sovereign governments to supervise or regulate the activities of foreign financial firms.

The International Monetary Fund, of which Canada is a member, does have the right under international law to assist members experiencing balance of payments difficulties.

Non-tariff barriers - Each country has established a variety of NTBs dealing with the entry and operating procedures of foreign financial firms in domestic markets. For instance, there exists a Canadian federal requirement that to be registered, foreign property and casualty insurance firms must deposit two times as many funds with the Receiver General as domestic firms. There are also restrictions on the foreign ownership of banks and trust and loan companies. The Canadian Bank Act of 1980 has been highlighted by several countries as being a significant NTB, as it requires the processing of customer accounts to be undertaken in Canada. As the internationalization of financial markets continues, the extent of NTBs could decrease.

Free trade implications - A free trade agreement in financial services with the U.S. is possible. The structures of the two financial systems differ both in form and allowable operating procedures. The development of an agreement would require both countries to change

significant legislation (e.g. the Bank Act in Canada and the Glass Steagal Act in the U.S.). The Canadian government has proposed to change the foreign ownership limits of Canadian chartered banks.

Trading situation - Canadian chartered banks have taken significant positions in foreign financial markets, particularly in the area of merchant banking in the U.K., state banking in the U.S. and lending activities in the LDCs (Less Developed Countries). The Canadian securities industry participates in the underwriting of international issues, but in a minor way. The Canadian financial industry is being opened up to foreign financial firms. The recent Ontario legislation allowing foreign firms and individuals 100% access to the Ontario securities market is one example of this trend.

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INFORMATICS

This industry grouping encompasses the following segments:

Software and Computer Related Industries;
Telecommunication Broadcasting and Carriers;
Printing and Publishing Industries and
Other Information Providers and Handling Services.

Informatics covers the collection, processing and transmission of information.

Structure

The telecommunications industry involves a number of interrelated activities within a series of broad markets. The major industrial activities include research and development, manufacturing, and servicing. The provision of telecommunications services requires that the media of transmission - including station equipment, local distribution facilities, transmission or long-haul facilities, and switching facilities - be kept operational. The outputs of the industry can be classified according to the mode by which the information is conveyed - telephone, telegraph, data, or video.

Traditionally, the Canadian telecommunications carriers have been the decision-makers in terms of the choice of facilities and equipment for the entire telecommunications industry. However, liberalization of terminal interconnection policies at the federal level has resulted in an increase in the number of private networks and new enhanced or value-added services from non-traditional suppliers of telecommunications services.

The rapid pace of technological change is blurring the distinction between the fields of telecommunications, broadcasting, and computing and data processing services.

Basic telecommunication services - essentially telephones, telegraph, and satellite transmission - are defined by the CRTC as those services which offer transmission capacity for the movement of voice, data and video information, where the service consists of providing the "communications path" for information. The major telecommunications carriers are the telephone companies, Telesat Canada, CNCP Telecommunications, and Teleglobe Canada.

Generally, the largest telephone company in each province, plus Telesat Canada, are affiliated in an unincorporated association known as Telecom Canada to provide national telecommunications services. In addition to the Telecom Canada member companies, there are over 106 other, generally smaller, telephone systems. Currently, 14 telephone systems account for 98% of the telephone activity in Canada. Within Ontario there are over 30 telephone systems. Bell Canada, however, operates more than 95% of the access lines in the province.

Operating revenues for telephone systems in Canada were approximately \$7.7 billion in 1982 and increased to \$10.6 billion in 1986. Over the same period, operating revenues for telephone systems in Ontario increased from \$2.8 billion in 1982 to \$3.6 billion in 1985 or roughly 35% of total Canadian revenues. (These figures are estimates, as Statistics Canada records revenues for Bell Canada, which operates in Ontario, Quebec and The Northwest Territories, strictly as revenue for the province of Quebec.)

According to a 1986 study prepared for the Ontario Ministry of Transportation and Communication (MTC), employment in the Ontario telecommunication sector rose by 30.9% between 1975 and 1981, from 35,000 to 45,800. This was followed by a decline of 8.1% over the next three years, with employment recorded at 42,100 in 1984. Employment is forecast to grow slowly over the next few years, reaching 44,000 in 1990. This pattern closely follows that of the national statistics.

Enhanced Telecommunications - involves offering any service beyond the basic service of a communications path, for example, computer processing, voice messaging, data base retrieval and electronic mail. In Canada, enhanced telecommunications is generally not regulated by the CRTC. However, safeguards have been instituted to ensure that telephone monopolies do not use their monopoly position in basic services to compete unfairly with enhanced services. (Difficulties exist in collecting data on revenue and employment due to the broad cross-section of industry groups that provide and use enhanced telecommunications services.)

There are more than 200 radio common carriers, which have combined annual revenues estimated to be over \$150 million. They provide various mobile-radio and radio-paging services across the country, primarily in urban areas, in competition with telephone companies. According to the Ontario government study of the provincial service sector, operating revenues for Canada in 1982 for telegraph and other non-telephone systems were \$536.3 million. (Data has not been segregated by province).

Cable Television Systems - In 1986, the approximately 500 Canadian cable systems had total operating revenues of \$1.8 billion. The Ontario study on the provincial service sector estimates that total operating revenues of provincial cable systems increased by 50% between 1979 and 1983 from \$127.4 million to \$191.7 million, or 22% of the Canadian total. Although the main business of these companies is the distribution of television and radio programming, they are also beginning to compete, to a very limited extent, with telecommunications common carriers in the provision of special services, such as the monitoring of fire and burglar alarms.

The computer industry has become one of the most dynamic and fastest-growing sectors in the economy. Predominantly Canadian-controlled, it is comprised primarily of four major sub-sectors: data processing services, professional services, software products and distribution, and systems integration. Many of Canada's high-tech companies are located in Ontario. They benefit from the high proportion of sophisticated users who live and work in Toronto, one of the richest computer markets in the world. In general, consumers have overcome their initial apprehensions and have embraced new technologies quite readily.

In 1985, the Canadian computer services industry was comprised of approximately 2,500 firms and employed over 29,700 people. Software revenues amounted to \$895 million in 1985, or 0.2% of GDP. This represents a 37% increase over 1983 revenues. Total software revenues are estimated at \$1.23 billion for 1985, or 47% of \$2.62 billion total revenue forecasted for 1987. This 1987 revenue forecast represents approximately 0.49% of estimated 1987 GDP. While still a very small percentage of GDP, software revenues are forecast to grow at an annual rate of 19%, over three times the forecast growth rate for GDP (6.2%). Revenue growth forecasts closely match those predicted for the U.S., where revenues have been growing on average by 20%.

Ontario is the venue for 66% of the Canadian software market. As of 1984, there were 1,467 computer service firms in Ontario employing over 11,000 people. This employment figure represents 6,000 new jobs since 1978. The total percentage growth achieved over these years was a substantial 125.6%, marginally lower than the 150.9% experienced for Canada as a whole.

The Ontario software industry is highly fragmented, with a large number of small firms operating in a wide range of industries. The industry is characterized by

highly differentiated products and services. Since software development is often tailored to client specifications, the product varies depending on the needs of the customer. According to the Ontario Software Development Association, there are over 500 software development companies in Ontario, many of which are often one-person operations. Industry fragmentation has resulted for a number of major reasons: negligible entry barriers due to low capital requirements; increasing demand for highly diverse, customized products and services; and the relative "newness" of the industry.

Large firms dominate data processing services in Canada. The largest Canadian owned firms are Canada Systems Group, Datacrown and I.P. Sharp. Growth of this industry decelerated from an average rate of 19% between 1977-1981, to 7% in 1982. This sub-sector produced half of all computer software and services industry revenue in 1983 and 44% in 1984. The professional services sub-sector is highly fragmented and accounted for 25% of the industry revenue in 1983 and 27% in 1984. The software sub-sector in Canada comprises more than 1,000 firms who develop and distribute software. This group generated 15% of the industry revenue in 1983 and 19% in 1984. The systems integration group, which integrates software and hardware components with custom software and creates turnkey systems that meet the client's specific needs, produced 10% of all industry revenue in 1983. This share is expected to rise to 11% by 1987.

Printing, publishing and allied industries encompass the following: commercial printing industries, platemaking, typesetting and bindery industries, the publishing industry and combined publishing and printing industries. In Ontario, 59,623 individuals were employed by 2,414 establishments in 1985, which are concentrated primarily in metropolitan areas. Although the majority of the companies in the industry as a whole are not unionized, a great proportion of workers in the printing sector belong to a union. Unionization occurs primarily in medium and large-sized companies.

Foreign ownership for the printing sector as a whole is only about 2% for Canada. This figure rises to 2.5% foreign ownership in Ontario. The foreign ownership firms are predominantly larger organizations.

Broken down by type of activity, the largest number of establishments in Ontario in 1985 were in the commercial printing industries, with 1,290 firms and 24,602 employees. Commercial printing ranks 5th in terms of

employment provided and 1st among all Canadian manufacturing industries in terms of the number of firms established. Within Canada, the sub-sector is dominated by large firms.

Platemaking, typesetting and bindery industries encompassed 440 firms with 8,093 employees in 1985. The publishing industries comprised 401 firms and 7,016 employees. Combined publishing and printing industries accounted for 209 firms and 15,742 employees. Business form printers accounted for 74 firms and 4,170 employees.

Industry Trends

Future trends in the telecommunication sector, as identified by the Ontario Task Force on Employment and New Technologies, include:

Private automated bank branch exchanges, electronic mail, voice mail, facsimile links, dedicated satellite or microwave systems, video conferencing, fibre optics, and dedicated head office/plant or head office/customer computer linkages.

The small size of software firms makes it difficult to capture economies of scale, especially in the production aspects of the business. Other disadvantages include the general lack of management expertise and difficulties in obtaining financing, which are limitations to both product development and marketing initiatives. Positive aspects of small firm size include ease and flexibility in responding to rapid product changes brought about by new technology. This is an important asset, since product changes require a quick response and a high level of coordination among functions. It is generally believed that the productivity of large software teams is less than that of smaller groups. Customization also favours smaller companies.

The products and services derived from the software industry affect all sectors of the economy and improve productivity and increase competition within each segment of the Canadian economy. Many small Canadian software companies are tackling specific market niches broadly identified as banking, real estate, services to business management, health services, gas and oil, transportation, mining and primary metals, and forestry pulp and paper. Software sales offer an opportunity for growth in specialized fields such as vertically integrated processing services and value-added data bases.

This degree of specialization could prove increasingly difficult to maintain, due to the growth in generic hardware and general product standardization. In order to ensure future growth, many businesses are moving away from customized packages and are opting for "packaged" software programs. Firms are also attempting to achieve economies of scale in their marketing and distribution functions.

In a recent study prepared for the Ministry of Industry, Trade and Technology on the software industry, a number of problems facing the Ontario software industry were raised by survey members. The survey companies perceived ineffectual Canadian copyright laws, problems with software piracy, poor marketing expertise, inaccessibility to venture capital and impediments to penetrating export markets.

There are a number of factors that give Ontario a comparative advantage in the software market. These include: proximity to the U.S. market; language and cultural affinity with the U.S.; membership in a Pacific Rim country; access to European countries; the ethnic mosaic structure of the Ontario population, which provides natural links to foreign markets; political neutrality; an established user base; quick diffusion of computer technology; stable government; first-rate educational institutions; and comfort with technological change.

The major comparative disadvantages are: the relatively small size of the provincial market; the predominance of foreign control in the larger firms; the emphasis on labour-intensive custom software and consulting rather than the more profitable packaged software; the brain drain or the exodus of bright talent to the U.S.; the negative attitude of the financial community; and traditionally poor marketing ability.

According to a recent study by Aktrin Research Institute, concentration in the commercial printing industry is declining, as larger companies are decreasing in relative importance. Two developments have a bearing on this process of deconcentration. First, the tendency toward concentration does still exist, through mergers and acquisitions, but is occurring at a slower rate. Second, smaller establishments are experiencing a faster growth rate than their larger rivals.

A declining trend in foreign ownership has been experienced in the printing, publishing and allied industry. This can be attributed to the federal FIRA measures. With the advent of trade liberalization, foreign ownership may start to accelerate.

There is an increasing need for the print industry to specialize according to their market rather than to their product. However, the degree of specialization depends upon the size of the customer base. The industry should not become dependent upon a small number of clients.

Competition exists amongst the various segments of the printing and publishing industry. This competition is reduced as publishers and larger printers integrate their operations, allowing both to access long-term customers. Printing establishments also compete with in-house operations that prevail throughout most of the larger companies in Canada.

Regulatory Environment

The Canadian telecommunication institutional framework represents a complex mixture of federal and provincial legislation, policies and regulations. Unlike the situation in many other countries where there is a state controlled post, telephone and telegraph organization, the Canadian telecommunications carriage industry consists of a mixture of private, governmental and joint private-governmental corporations and organizations. Each of these is generally regulated by a single federal or provincial agency, while the enhanced telecommunications sector remains relatively free of government regulation.

Government regulations for the computer services industry do not exist at this time. The 1980 Canadian Bank and Bank Revision Act requires that the processing and maintaining of Canadian bank operation records must be carried out in Canada.

Government Initiatives

Technological advance and pressures for increased competition in the telecommunication area have generated a myriad of policy issues. According to a recent study on telecommunications policy and regulation, there are five critical issues. These are as follows:

1. The role of the sector in the information business and the threat of "by-pass" and the erosion of boundaries.
2. The problem separating monopoly and competitive services and markets.
3. The problems associated with telecommunications costing and pricing.

4. The continuing need for jurisdictional and regulatory reform in the telecommunications field.
5. The impact of increased competition on traditional and current industrial policy concerns.

The telecommunications industry does not receive any preferential financial assistance through federal government grants and loans. The federal Department of Communications, through its Space Industry Development Program, awards contracts to telecommunication manufacturers for research, design and development of communications satellite systems and components. A similar policy for carriers does not exist.

In 1984, the Ontario Ministry of Transportation and Communications presented its views on telecommunication policy. It recommended that Telesat Canada be allowed some flexibility regarding the sale or continued lease of its current satellite uplink equipment in order to be able to compete more effectively. It also recommended the cancellation of Telesat Canada's membership in Telecom because of its deterrent as a competitive force.

The CRTC has voiced consumer and business concerns in the telecommunication area. Consumer concerns are: universality of service; consumer choice and responsiveness to consumer need; quality of service; and reasonable rates. Business concerns include: concern that rates and conditions of services should not cause undue preference or disadvantage; innovation; and the efficiency of telecommunications systems. An additional concern for both groups would be the privacy and confidentiality of information transmitted.

As of 1984, Canada had no software industry strategy. There are no Federal government programs designed specifically for the industry. Eight programs that assist technology development in general are available. These are the following:

- TIP (Technology Inflow Program)
- IRAP (Industrial Research Assistance Program)
- NITP (National Industrial Training Program)
- LABNET (Program for Industry/Laboratory Projects
-part of IRAP)
- SGF (Skills Growth Fund)
- ISTECH (Industrial and Regional Development Program)
- DIPP (Defence Industry Productivity Program)
- Unsolicited Proposals for R&D Program.

The Federal government did attempt to help the software industry indirectly by the SRIC (Scientific Research Investment Contracts) tax shelters. However, due to the proliferation of fly-by-night companies that tried to receive financial assistance through this group, the SRIC was disbanded in 1986.

Presently the software producers are eligible for export assistance through the Program for Export Market Development.

The Ontario government attempted to initiate a strategy for the industry by providing \$100 million to six technology centres through the Board of Industrial Leadership and Development (BILD) program. The Machine and Automation Technology Fund and the Information Technology Fund also support the industry. The ODC (Ontario Development Corporation) has assisted Canadian high technology firms that cannot obtain private sector financing for expansion. For export growth, the Export Success Fund has helped develop international presence for the Ontario software market.

The IDC study on the computer industry indicated a number of areas in which the government of Ontario could take action. Survey respondents indicated that the need for some sort of government financial assistance was required. Some suggestions were: grants for research; R&D tax credits for software research; tax breaks to end-users who purchase Canadian software products; assistance and funding for companies participating in software-related trade shows and exhibitions; the provision of valuable linkages to venture capitalists; assistance to companies with marketing expertise. There is some concern about the degree of involvement by the government.

The Federal Department of Industry, Science and Technology provides a Canadian Book Publishing Development Program to increase promotion, marketing/sales, and distribution capabilities of publishing operations.

The Ontario Ministry of Citizenship and Culture provides assistance to book publishing through its Publishing Program.

Trade Issues

International agreements - The scope of this sector precludes an all encompassing international agreement. However, a number of agreements/organizations regulate the international activities of the products of this sector.

They include the International Telecommunications Union, the World Intellectual Property Organization, the International Standards Organization, Immarset, Intelsat and the OECD Code of Liberalization of Current Invisible Operations and the OECD Code of Liberalization of Capital Movements.

Non-tariff barriers - Most nations retain a monopoly on the installation and operation of telecommunications facilities although they are normally allowed, by law, to grant concessions to private sector firms within specific services such as radio, telephone, television cable, satellite communications and transmission of data. The main NTBs imposed on foreign entrants are preferential purchasing by governments, quality standards, tax and/or subsidy preferences, local labour requirements, operating conditions and intellectual copyright. In the area of computer services most countries do not have substantial rules and regulations affecting trade but they are being developed as the technology and its uses emerge. The main issues developing in this sector are the regulation of transborder data flows, confidentiality, sovereignty and intellectual copyright.

Free trade implications - Given the basic infancy of this industry's components, free trade between Canada and the U.S. is the status quo. However, a number of basic communication services are highly regulated in both countries and the main concerns under a free trade agreement will be privacy, sovereignty, government procurement preferences in both countries and the provision of a research and development tax and other subsidies.

Trading situation - Over the past several years, Canadian companies have been exploring potential markets outside of the U.S. for software exports. Primary target areas include Britain, the newly industrialized countries of the Pacific Rim and the People's Republic of China. According to a 1986 Institute for Research on Public Policy study, educational and training software packages have significant export potential in the Pacific Rim countries. In addition, a potential market exists for the exportation of telecommunication services to developing countries which are currently setting up or restructuring their telecommunications infrastructure.

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PERSONAL AND HOUSEHOLD SERVICES

Personal and household services involve a myriad of personal care and private services to a client base comprised largely of individuals and households. These include:

- Laundry and Cleaning Services;
- Personal Grooming Establishments;
- Repair Facilities;
- Linen Supply;
- Clothing and Costume Rentals;
- Health Spas;
- Photography Services;
- Funeral Services, and
- Religious Membership Associations.

Structure

The number of employees and establishments are difficult to determine in this sector since most statistical publications combine personal services with business and community services.

There were 21,599 barber and beauty shops in Canada in 1985 with total revenue of over \$1.274 billion dollars. Laundries and cleaners were comprised of 6,382 establishments in Canada and \$1.142 billion worth of revenue. Other personal and household services, including shoe repair and dyeing, cleaning and storage of fur garments, costume and clothing rentals, hair electrolysis, health spas and weight reducing spas, accounted for 5,972 businesses and \$463.8 million in revenues. There were 2,786 photographers representing \$380.9 million in revenues.

The percentage distribution of services by client base in Canada in 1984 for laundry services was 40% to households and individuals, 49% to business and 11% to government. Barber and beauty shops had 98% of their business in the hands of households and individuals, while the remaining 2% fell to business. Other personal and household services supplied 82% of business to households and individuals, 17% to business and 1% to government. Photographers relied on individuals and households for 64% of their business, business groups for 34% and the government for 2%.

According to the Labour Force Survey, the annual average employment for personal services in 1986 in Ontario was 121,000, the largest provincial showing in Canada.

Religious organizations accounted for 25,000 employees. In terms of full and part-time employment in Canada in 1985, 84% of employees in barber and beauty shops were full-time, 80% of workers in laundries and cleaners were full-time, but, only 38% of employees in other personal and household services were full-time. Sixty-two percent of photographers were full-time employees.

Total revenue for barber and beauty shops in Ontario in 1985 was \$515.2 million, a 32% increase over the level of revenue recorded in 1982 (\$332.1 million). Laundries and cleaners registered \$458.4 million in total revenue in 1984, an 49% increase over the 1982 level of \$307.3 million. Other personal and household services recorded \$192.6 million in revenue, a substantial 81% jump over the 1982 level of \$96.8 million. Photographers experienced total revenue of \$183.8 million, a 40% increase over the 1982 revenue of \$113.9 million.

In terms of family expenditure, average family expenditure in Canada in 1985 on laundry and dry-cleaning, was \$132; on personal care services, \$234; and contributions to charitable organizations amounted to \$221. For Ontario, represented by Ottawa, Toronto and Thunder Bay, average family expenditure in 1984 on laundry and dry cleaning was \$146; on personal care services, \$238; and contributions to charitable organizations amounted to \$268. All three expenditures were higher in Ontario than for Canada as a whole.

Industry Trends

The personal and household sector is subject to the general health of the economy. As one can see in the above section, revenues for this area increased substantially between 1982 and 1984 as businesses recovered their former market share.

Personal and household services are not considered tradeable since they are inherently relatively small, locally-based enterprises. If there are international ambitions, they are usually achieved through franchising, which falls under the professional and business services sector.

Government Initiatives

The Ontario Government has a broad spectrum of policies and programs aimed at the personal and household sector through their Small Business Advocacy Group. One such

program is the New Ventures program to provide new businesses access to funding through loan guarantees. Ontario's three development corporations, Ontario Development Corporation (ODC), Northern Ontario Development Corporation (NODC), and Eastern Ontario Development Corporation (EODC), offer a comprehensive program of financial and advisory services to businesses throughout Ontario. The Ontario government's Small Business Development Corporations Program is designed to stimulate private sector investment in small businesses. This program provides attractive financial incentives to individuals and corporations that invest funds in the Small Business Development Corporation. In turn, the Corporation, invests money in certain eligible small businesses and is exempt from the Ontario corporations capital tax.

The Federal Business Development Bank promotes and assists in the development of business enterprises in Canada by providing them with financial and management services.

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PROFESSIONAL AND BUSINESS SERVICES

Professional and business services are the conglomeration of many diverse activities within the business sector. Professional services can be described as the provision of intellectual or specialized skills on a personal, direct basis and based on extensive educational training. The Secretariat has defined this particular category to include the following services:

- Accounting and Bookkeeping Services;
- Advertising and Related Industries;
- Architects;
- Consulting Engineers;
- Design;
- Employment Agencies and Personnel Services;
- Environmental Services;
- Franchising Operations;
- Geomatics;
- Legal Services;
- Management Consultants;
- Manufacturing Services;
- Professional, Business and Labour Membership Organizations;
- Real Estate Operators; and
- Scientific, Technical and Related Services.

Structure

This segment of the economy has been responsible for the majority of employment creation within Canada over the last 20 years. It is comprised of many specialized well-paid occupations. As well, it includes, according to the Statistics Canada S.I.C. index, credit bureaus, collection agencies, custom brokers, telephone answering service, reproduction services, other office services and miscellaneous services to business management not elsewhere classified. As of 1986, there were approximately 106,632 firms and 1,613,599 employees within Ontario's business and professional services sector. About 92% of all firms are small and these account for 26% of all employment in this sector. The work force is largely composed of white-collar, professional people. The largest number of firms (25,965) was in business management services with the largest number of employees (8,134) in education and related services.

Statistics Canada undertook a study of revenues, client base, sources of receipt and full-time versus part-time employment for selected service industries in Canada for the years 1982 to 1984. The only statistics available for

Ontario are revenues for employment agencies and personnel suppliers, advertising services, and other business services. Employment agencies increased revenues by 22% from \$254.7 million in 1982 to \$310.7 million in 1984. Advertising services increased their revenues by 20%, from \$830.5 million to \$997.2 million. Other business services, which include security investigation, credit and collection, telephone answering, custom clearance, duplicating and graphic design, experienced a 21% increase in revenue from \$1429.4 million to \$1724.4 million.

The majority of large Canadian firms in advertising, accounting and management consulting are either affiliated with or partially owned by foreign firms. Architectural and consulting engineering firms are predominantly Canadian owned.

Industry Trends

Many companies are altering their original working environments as they diversify into other areas of expertise. For example, advertising agencies have expanded into public relations; accounting firms are increasing their management consulting facilities; engineers are overlapping into the architectural area. The ease of entry into business services facilitates the movement across trans-professional boundaries. Once licensing and professional accreditation requirements are fulfilled, an individual may "set up shop" in a number of these areas.

An increasing number of firms contract out services to business and professional groups rather than maintain an in-house department. Unless a firm can justify the expense through frequent usage, substantial cost savings can be achieved by eliminating overhead and labour costs associated with specialized services such as legal services. On the other hand, some manufacturing firms that initially instituted specialized in-house services have started to compete with external service organizations. An example is the Xerox Marketing Skills courses, which were developed within Xerox as a training program for new staff. Xerox now sells this as a program to any interested company undertaking marketing activities.

The business and professional service sector will continue to experience strong growth. This growth is a function of the overall growth in the general economy, the formation of new businesses and the increasing complexity and specialization of organizational structures. Certain professions within this particular segment are vulnerable to business cycles. Recessionary environments greatly affect the industry, since ancillary services such as

management consultants and architects are usually the first to be dropped by firms when they are affected by a downturn in the economy.

Technological changes will greatly impact this sector in terms of declining employment, as firms increasingly utilize computers for undertaking complex and specialized tasks. Labour productivity should be enhanced not only as a result of the implementation of new technology, but also due to the reduction in requirements for particular functions. Legal firms that have initiated computerized legal research departments have reduced the time involved in researching cases.

According to the document Managing in Difficult Times, architectural services will experience slow or limited growth as firms continue to decline in size and number of employees.

Three areas of professional and business services which show promise for the future are geomatics (or GIS), environmental services and design services.

Geographic Information Systems (GIS) "automate everything from simple mapping functions to complex land use analysis" to help plan and manage land holdings and natural resources. Among Canadian GIS firms, total sales amounted to \$17.8 million with 54% of revenues earned in foreign markets. The GIS industry employs 700 directly and 200 indirectly (in consulting, modifying and enhancing).

Environmental services encompass a wide range of services and projects in waste management (disposal and recycling), pollution abatement and control, information, data gathering and analysis, and resource conservation. A Ministry of the Environment survey ascertained that there are over 1800 firms involved in the supply of environmental goods and service production in Ontario.

Design services are utilized in such areas as manufacturing, construction, advertising and exhibition/theme parks. Industrial designers develop ideas to design the form of manufactured products. That includes consulting with engineering, marketing, production and sales representatives to enhance the appearance and performance of products. An 1987 federal survey estimates that there were 500 industrial design firms in Canada, 54% located on Ontario. Interior designers "plan, design and furnish interior environments of residential, commercial and industrial buildings. Graphic designers are involved in the creation of visual displays in magazines and

advertising. Ontario also has a proven capability in the design of exhibitions and theme parks.

Regulatory Environment

Most of the firms within this sector are self-regulated by central organizations that are responsible for licensing and certifying industry members and establishing industry standards. Many of these organizations supervise training programs and licensing requirements, which ensures a high level of quality among new entrants and protects the public. Licenses are granted upon completion of certain educational requirements, apprenticeships, or examinations.

The Architects Act of 1984 contains clauses that allow for the admittance of Canadian citizens or permanent residents of Canada only, thereby restricting entry by foreign competition.

The Canadian Advertising Advisory Board regulates the industry through the Canadian Code of Advertising Standards.

The Canadian Bar Association represents over 33,000 jurists, including lawyers, judges, notaries, law teachers and law students. Membership is voluntary. Its mandate is threefold: to foster improvement in the law, improvement in the administration of justice, and improvement in the learning and skills of the individual lawyer. Inter-provincial barriers exist in services such as the legal profession, where individuals practising in one province are not necessarily able to practise in another province without attaining the necessary educational requirements (i.e. Quebec-Ontario).

The Association of Consulting Engineers of Canada has a membership of over 800 firms in Canada, of which all are Canadian-owned. It promotes business relationships between its members and domestic and international clients. Professional, management and business experience are supported by the ACEC amongst its membership. It maintains high professional standards within the industry and encourages a positive business climate for consulting engineers.

The Institute of Management Consultants of Ontario was organized by leading members of the profession and incorporated as a non-profit organization in 1966. Its CMC designation was recognized as the trademark of a Certified Management Consultant as of 1984. The objectives of the Institute are as follows: to establish, maintain and enforce strict rules of professional conduct and ethical

practice for management consultants in their relationships with clients and the public; to maintain the highest standards of quality by creating examinations to develop the skill and knowledge of individuals entering the profession; and to stimulate professional development and enhance the public reputation of the Institute.

There are three professional accounting bodies in Ontario: The Certified General Accountants Association, The Society of Management Accountants, and The Institute of Chartered Accountants. The Institute of Chartered Accountants of Ontario was founded in 1879 and is a private, voluntary membership organization of those individuals who have met the prescribed entry standards. The main objective of the Institute is to produce high quality accountants who can meet the public's needs. The Public Accountancy Act controls the licensing of public accountants. At present, only Chartered Accountants are entitled to obtain licences from the council. The Certified General Accountants Association of Ontario is seeking an amendment to the Public Accountancy Act to ensure that Certified General Accountants with three years of practical experience in public accounting will be entitled to become licensed as public accountants with the CGA designation.

Government Initiatives

At the federal level, small businesses enjoy a tax rate of 15% on the first \$200,000 of taxable income. In Ontario, there is a three-year income tax exemption for new qualifying corporations. The exemption applies to the first \$200,000 of eligible income in each year.

There are no federal or provincial programs aimed specifically at the advertising industry, or the real estate development industry. Indirect assistance is proffered through various tax and other policies that governments utilize to stimulate the construction/housing industry and through government advertising directed towards Canadian firms.

Architectural firms have received assistance from the federal government's Program for Export Market Development (PEMD), Canadian International Development Agency (CIDA), and the Export Development Corporation (EDC). On the provincial level, the Ontario International Corporation (OIC) and the Export Success Fund have provided financial assistance.

The Department of External Affairs, PEMD, EDC, CIDA, and OIC assist exports by Ontario consulting engineers.

Management consultants receive some export assistance through PEMD and Ontario's Export Success Fund administered

by the OIC. The federal government's Industrial and Regional Development Program (ISTECH) provides one-third to one-half the cost of hiring qualified consultants for studies on product and process innovation, modernization of existing manufacturing operations and marketing.

Trade Issues

International agreements - There are no international agreements dealing with trade in professional and business services. However, there are a number of sector specific agreements that directly impact on this industry. For example, the International Labour Organization's Articles call for the free movement of labour between nations. There are also a number of bilateral agreements dealing with professional accreditation.

Non-tariff barriers - The major NTBs impacting on professional and business services are those which restrict or limit non-nationals from providing professional services (e.g. law or accounting), restrict or limit labour mobility both internationally and interprovincially, impose differential operating standards on foreign operations and impose residency requirements. One item of concern is the subsidization of local contracts in home markets and in third country markets.

Free trade implications - The principal impediments to expanded bilateral trade are not the imposition of tariff barriers but the effects of regulations and more indirect policy measures associated with NTBs. These include licensing arrangements, establishment restrictions, scope of business, procurement policies, subsidies, and immigration.

Trading Situation - Canadian professional and business services are traded worldwide. The major market for these services is the U.S. Other significant markets include the Middle East, Asia and developing countries.

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PUBLIC SERVICES and PUBLIC ADMINISTRATION

Public services are those activities which communities recognize as serving society's basic needs. They are strongly influenced, if not completely administered, by public authority. Within public services, the Secretariat has included:

Education;
Health and Social Services, Agencies and Practitioners;
Labour, Employment and Immigration Services;
Libraries, Museums and Archives;
Protection Services;
Public Utilities, and
Political and Civic Associations.

Public administrative services direct, support and administer activities that are not necessarily undertaken by government agencies. These include:

Economic Services;
Human Resource Administration;
General Administrative Services, and
Intergovernmental Affairs and Assistance.

For analytical purposes, these two sectors have been combined to facilitate the collection of data that fall under the heading of public administration. When possible the two will be separated.

Not only has there been growth in the service sector as a whole over the last 40 years, but substantial growth in public sector services in particular. Since they place an increasing claim on government financial resources, social and human services are a central concern not only for individuals and households but also for governments. Highly labour intensive, the public sector in modern industrial countries may account for approximately 30-50% of national income, but is dependent on taxes for its revenues. Attempts have been made to recover costs associated with the public sector by various means. For example, educational loans, in addition to grants, are being offered to students, and museum fees are now charged in many communities.

Federal and provincial government responsibilities are set out under the Constitution Act. The federal government is responsible for defence, foreign affairs, monetary policy and matters not exclusively assigned to provinces. The provincial governments have responsibility for all

matters of a local or private nature such as health, education, property and civil rights, etc. The Constitution Act determines the taxing authority of the federal and provincial governments. Provinces are generally restricted to direct taxation, while there is no limit to the federal taxing power. Federal cash transfers under various agreements and programs provide about 15 to 20% of Ontario's revenue. The main source of provincial revenue is direct taxation on personal and corporate income and/or consumption of goods and services. The government also raises revenue from license fees, permits, fines and investments. The provincial government does not directly provide all of the services for which it is responsible. Many social services are provided indirectly through institutions and local governments which are funded largely through transfers from the province.

Structure

Public Administration - Over 1,170 distinct organizations comprised this sector in Ontario in 1986. Employing 427,259 people. Public administration accounted for 9% of Ontario's total employment in 1987.

According to the Conference Board of Canada's Provincial Outlook, Ontario public administration's real GDP (1981 dollars) accounted for 5.7% of total real GDP in Ontario for 1987. Statistics Canada has provided numbers for certain segments within this industry in Ontario, for the years 1983 and 1984. GDP in current dollars for provincial government services increased by 7.2% between 1983 and 1984. Local administration GDP grew by 4.8% over the same time frame.

Public Services- Ontario community service employment rose by about 100,000 between 1978 to 1984, from 493,000 to 599,000. This represents an increase of 21.5%. Community services made up 14.9% of total employment in 1984. Between 1983 and 1984, GDP for private and public health and social services increased by 13.9% and 9.6% respectively. GDP for private and public education grew by 11.5% and 6.6% respectively. Total expenditures by governments, individuals and businesses on education in Ontario in 1983-84 were in excess of \$10 billion.

In 1986-87, the Ontario Ministry of Health's proposed budget totalled \$9.9 billion, which would constitute 32% of the provincial government's total expenditures. The Ministry of Education's proposed expenditure was \$3.5

billion, representing 11% of the provincial government's total expenditure. The Ministry of Community and Social Services proposed spending just over \$3.0 billion, or 10% of the total. At present, these three ministries alone are credited with over 50% of government outlays.

Since there are seldom fewer than 20 employees in any government department, there are virtually no small firms in either the public administration or public service sector. Public administration is in fact the largest sector of government in terms of numbers of employees and size of budget.

Industries in both sectors are almost entirely Canadian-owned and controlled. Although a number of hospitals are managed by American firms, they are precluded from ownership by Canadian regulations stating that hospitals must remain under public sector control.

Industry Trends

Government departments control, regulate and monitor a diverse range of activities through regulations and standards and through the delivery of services. As they become more involved in the delivery of services, they are attempting to integrate and coordinate services that are interdependent. Government bureaucracy tends to hinder these attempts, since departments traditionally strive to maintain their sphere of influence and do not want to relinquish control over their programs and activities. This remains an area, however, in which costs can be reduced through more effective administration and less duplication of services.

A key factor affecting social services, health and education is demographics. It is estimated that by the year 2006, there will be 1.5 million persons over 65 in Ontario almost double the figure of 900,000 persons recorded for this age group in 1983. As the population ages, there will be less emphasis on education and more emphasis on the provision of health care for the elderly. Since seniors currently take up 40% of all patient days counted for acute care, 80% of patient days for chronic care and 91% of patient days for extended care, health care costs will rise significantly. At present, a sufficient number of low-cost facilities for the aged are not available. As a result, the elderly are placed in higher-cost acute and chronic care areas of hospitals and institutions.

Similarly, changing demographics will mean diminishing enrolments at all levels of education, except that career changes, unemployment and technological change in the work place will spark a greater demand for adult education.

New technology will also continue to be a major force in many areas of public sector and public administration services. For example, the use of advanced medical technology in the health care industry contributes to escalating health costs. Technology also affects the public administration sector by increasing productivity, cutting costs and enhancing human capacity and capabilities.

Regulatory Environment

Ontario regulates the health care sector through the Health Insurance Act, the Public Hospitals Act and the Public Health Act. In June 1986, extra-billing by health care professionals was banned by the passing of the Health Care Accessibility Act.

All levels of government are involved in the provision of social services. The province, through the Ministry of Community and Social Services, provides assistance and social services to persons in need. These services include general welfare, family benefits, residential care and community support for the elderly, services for children, and assistance for the developmentally and physically handicapped. The federal government administers national social security programs such as the Canada Pension Plan, Old Age Security, Family Allowances, War Veterans Allowances and Unemployment Insurance. Non-profit and volunteer organizations such as the Salvation Army, the March of Dimes and the Canadian Institute for the Blind augment the social services provided by the government.

Protection services involve all three levels of government. Police protection services are divided between the Ontario Provincial Police and municipal forces. Fire protection is a function of the municipal government in Ontario.

Government Initiatives

The provincial government has recently expanded its funding in the area of education to redress past underfunding. OSAP (Ontario Student Assistance Program) grants increased from \$29 million in 1971 to \$120 million in 1983. Ontario's recently amended Education Act now extends full public funding to Roman Catholic secondary

programs, while the General Legislative Grants to school boards were raised by 5.4% in 1986. A University Excellence Fund was created to assist universities in hiring young scholars and teachers and to defray costs for new research, for computer and experimental facilities in libraries and laboratories, and for other instructional equipment. A College Excellence Fund was created to provide similar assistance for colleges. To foster technological innovation and strengthen Ontario's applied research capacity, the government has also established a \$1billion technology fund to be spent over the next nine years.

The federal government, through the Canada Assistance Plan, provides funding for social service programs administered by the province. These contributions amount to 50% of the cost of social assistance.

The Institutional Operations Branch of the Ontario Ministry of Health ensures the efficient and equitable funding of health services within public and private hospitals, adults' and children's outpatient rehabilitation centres and the Ontario Cancer Treatment and Research Foundation.

The Underserviced Area Program of Ontario's Ministry of Health provides financial incentives to recruit health care professionals to practice in areas of the province designated as underserviced.

The Ontario Government has promised to spend an additional \$88 million on nursing homes in the province.

The Ontario Dental Association has proposed a plan to have the province support the dental needs of the elderly.

The Ontario government has proposed allotting \$415 million to school boards across the province for improved educational programs.

Trade Issues

International agreements - Given that public services such as health and education are regulated domestically, there are no international agreements governing trade in public services. In fact, as most public services reside in the public domain they are not applicable in trade negotiations. Organizations such as the World Health Organization set minimum standards and education requirements that most countries follow, but adherence to such requirements is voluntary.

Non-tariff barriers - The provision of public services is highly regulated in many countries. For example, developing countries may set currency restrictions or limit exit visas for students. In addition, specific guidelines and regulations, such as those set by the Canadian medical profession, are often mandatory for providers of public services. However, in most cases these regulations are well defined and understood to be part of national policy rather than non-tariff barriers to trade.

Free trade implications - It must be assumed that publicly provided services in both countries will not be included in the free trade discussions or subsequent agreement.

Trading situation - Trade in educational services consists of the education of foreign students in the public system, the private enterprise transfer of skills and material, and the general flow of knowledge into the foreign environment through an assortment of mechanisms ranging from consulting services and conferences to programs transferring both people and material. The largest component of education exports is the education provided to foreign students. The major component of imports is the education of Canadian students abroad. During the 1981-82 year, there were twice as many foreign students in Canada as Canadian students abroad, which created a positive trade balance in education services. Trends indicate an increasingly favourable balance if Canada capitalizes on the rapidly growing demand for educational services in developing countries.

Exports in health services has been limited because of the public provision of this service. However, the developing world presents a growing market for health care systems. Health consulting has also generated a considerable amount of work in both public and private sector enterprises. At present, most of this work is arranged through aid agencies or government-to-government purchases.

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SERVICE INDUSTRIES INCIDENTAL TO THE PRIMARY SECTOR

This grouping includes many services that primarily concern the agricultural, forestry, fishing and mining sectors.

The agricultural sector includes services incidental to livestock and animal specialties such as veterinary services, animal breeding, poultry services and animal boarding and grooming; services incidental to agricultural crops such as soil preparation, planning and cultivating services, crop dusting and spraying services, harvesting, baling and threshing services and fruit picking and pruning services; agricultural management and consulting services such as those provided by agronomists and agrologists, and farm management services; and research and information services such as agriculture research and information service, experimental farms, livestock nutrition, soil research and information and horticulture practices.

The forestry sector is comprised of a number of services incidental to forest products which include forest protection, forest fire fighting, reforestation and forestry consultants.

The fishing sector contain a number of services incidental to fishing: bait preparation and supply services, fish breeding and propagation, fish hatchery, fishery consulting, fishery inspection and protection, net mending and fishery research information.

Service industries incidental to mineral extraction include services incidental to crude petroleum and natural gas, which takes in the following activities: contract drilling for the oil and gas industry; cementing oil and gas wells; drilling water intake wells; cleaning out, bailing and swabbing oil and gas wells; and chemically treating oil wells.

Available data sources for these industries are scarce. Therefore, this section will aim to provide a broad overview of the sector and its components. There is no information on fishing services in Ontario.

Agriculture

Custom farmwork services include tillage and planting, weed control and fertilizer applications, harvesting bean, small grains, and corn, silo filling, hay

harvesting, and aerial operations. The Economics and Policy Coordination Branch of the Ontario Ministry of Agriculture and Food conducted the survey of custom farmwork rates for Ontario. Since they mailed out over 1,000 survey forms, one can assume that at least one thousand custom farmwork operators exist. Over 600 operators responded to the survey.

The services offered by custom work operators make a significant contribution to Ontario's farming activities. With the trend toward increased mechanization, many farmers have over-invested in specialized machinery in an attempt to reduce labour requirements and increase farm efficiency. By using custom work services, farmers can obtain the benefit of these specialized machines without having to buy them. Custom work services also allow farmers to use their labour for other purposes. Custom rates vary: low rates reflect the willingness of some farmers or machinery owners to do additional work to help offset the ownership costs of the machinery or good operating conditions. High custom rates can indicate a shortage of operators willing to do custom work or poor weather conditions, awkward field shapes, or sizes and hard or stony soil conditions.

Agricultural Consulting

Ontario's agricultural consulting industry is a progressive and growing industry sector with strong linkages to a vibrant agricultural and agribusiness industry. This industry represents a highly skilled and educated workforce, with professionals providing many high value-added services in specialized and technical areas. There are approximately 250 agricultural consulting firms in Ontario specializing in such areas as research/management, appraisal, farm management advisors and program managers. As well, Ontario has strong capabilities in agricultural economics and marketing, agricultural engineering, development planning (project related and land use and water management that is marketed in developing countries.

Government Initiatives - The Ontario Ministry of Agriculture and Food has a number of initiatives that promote and support the agricultural service area. A Soil and Water Management Branch was formed in April 1986 to reflect the increased emphasis on the wise use of Ontario's soil and water resources for a viable industry. It combines the drainage and capital improvements programs with new soil management and erosion control programs. The Plant Industry Branch promotes new soil and crop technology and management practices. The Agricultural Laboratory Services Branch provides a wide range of analytical services to assist the producer in day-to-day production

planning. The Branch also works to ensure food quality and improve the production capability of the industry by research and monitoring. The Agricultural Representatives Branch is responsible for farm management training, mainly through seminars, for farmers in every county of the province. The Rural Organizations and Services Branch provides courses on foods and nutrition, skills development and leadership training. Fifty-one courses in management of the farm business were attended by more than 1,000 farmers in 1986 at Centralia College. Staff from the Ontario Ministry of Agriculture helped with the planning and delivery of the federally-funded courses.

Three programs administered by the Farm Assistance Programs Branch were created during 1985-86 to assist farmers and their families over the difficult period of adjustment in the agricultural industry. In 1985-1986, the \$50 million Ontario Family Farm Interest Rate Reduction Program provided a direct interest reduction grant on up to \$200,000 of long-term debt. The \$6-million Farmers in Transition Program assisted farm families who are trying to stay on the farm and those who are re-establishing themselves outside the industry. The Farm Operating Credit Assistance Program provides an interest rate reduction on eligible floating-rate bank loans on an annual basis for up to three years. Besides these three, there was the Beginning Farmer Assistance Program, which helped first-time farmers get into the business.

Trade - CIDA has supported the Veterinary Laboratory Service Branch project in Indonesia that started construction of veterinary diagnostic laboratories and guest houses in November 1985. The six-year project is expected to increase the efficiency of livestock production for the Indonesian small farmer, to improve veterinary diagnostic and investigative services and to strengthen information systems for better treatment and control of animal diseases on the island of Java.

Forestry

The forest industry has long been a strong and vital element of Ontario's economic well-being. Supported by the reputation of forest products, Ontario firms have established themselves as reliable and efficient suppliers of forest consulting and management services in areas such as forest engineering, resources planning, biological research, mill operations and seeding operations just to name a few. Already Ontario has 800 professional foresters practising and specializing in a variety of disciplines around the world. One of the areas Ontario is best known for it's expertise is in forest fire management. For example, in 1985, the Ontario government signed an agreement with China to develop a forest fire management system and train the Chinese forest fire personnel how to manage fires.

Government Initiatives - The Conservation Authorities Act provides for the establishment of conservation authorities for the purpose of establishing and undertaking programs designed to further the conservation, restoration, development and management of natural resources other than gas, oil, coal and minerals. The Crown Timber Act enables comprehensive forest management agreements with members of the forest industry to ensure that forests under the agreements are harvested and regenerated to produce successive crops of timber on a sustained yield basis. The Forest Fires Prevention Act makes fire permits mandatory between the months of April and October 31st to: (a) start fires in a fire region except for fires lit for cooking or warmth; and (b) ignite fireworks in or within 300 m of a forest or woodland.

Mineral Extraction

The Petroleum Resources Section of the Ministry of Natural Resources supplied the Secretariat with the following information on oil and gas services. Employment figures contained in a 1981 brief prepared for the Ontario Petroleum Institute indicate that the Ontario oil and gas industry employs some 1,000 people directly and provides indirect employment for almost another 3,000 people listed in the "Ontario Oil and Gas Directory-A Guide to Products and Capabilities". This directory is published by the Ministry of Industry, Trade and Technology. The Ministry of Natural Resources, estimates the 1987 figures to be approximately 20% of the 1981 numbers, which implies that 700 are directly employed and 2,100 are indirectly employed. He attributes this sharp decline in employment as a result of the drastic drop in the price of oil during 1986. With the gradual increase in the price of oil, drilling is slowly picking up.

The Ontario Petroleum Institute currently has a membership of 257 individuals, most of whom are directly involved in exploration and production operations in Ontario. A breakdown of the membership shows the following:

	<u>Firms</u>
Oil and Gas Producers	80
Drilling Contractors	11
Oilfield Service and Supply	52
Financial, Insurance, Legal and Accounting	22
Consultants (Geological, Geophysical, and Engineering	46
Leasing and Land	9

The Petroleum Resources Section is responsible for regulating, partially through a licensing process, various activities related to oil and gas exploration in Ontario. Their current records indicate the following numbers of licences have been issued:

	<u>Licenses</u>
Licence to Produce Oil or Gas	143
Licence to Lease Oil or Gas Rights	156
Licence to Conduct Geophysical or Geochemical Exploration for oil or gas	45
Licence for a Machine for Boring, Drilling, Deepening or Plugging Wells	58 (machines)

Employment and activity trends in Ontario generally follow those of the rest of Canada, which has both a larger work force and service and supply sector.

Exploration and development activity in eastern Canada experienced a dramatic decline in 1986, especially in the offshore regions of the east coast, and Lake Erie in the province of Ontario. Reasons for the decline include the current depressed prices for oil on international markets, the termination of the Canadian government-sponsored PIP grants (Petroleum Incentives Program), and completion of exploratory drilling required to validate exploration agreements on the East Coast Offshore. In addition, uncertainties connected with deregulation of the Canadian natural gas industry had a major negative effect on exploration and development of natural gas in Ontario. A total of 113 wells were drilled in 1986 in Ontario, down from 196 wells in 1985.

The geophysical industry in Canada suffered a downturn in 1986 due to escalating costs for goods and services, high interest rates on capital outlays, and the ongoing high cost of new technology.

Mining contractors and consulting firms are numerous, and relatively small. They provide services in all aspects of the mineral production cycle: exploration; feasibility and design studies; mine development; operation or advice for mining, processing, smelting, and refining facilities; and studies in product markets and marketing. These firms are an important source of new technology for the industry. Due to their tight budgets and schedules they are rarely in a position to conduct R&D and to try out new technology. However, they do introduce and adapt proven technology from other countries and other sectors.

Government Initiatives - The provincial governments have ownership of and regulatory power over mineral resources within their borders. The federal government regulates some aspects of the mineral industry in Canada through its jurisdiction over interprovincial and international trade and commerce, fiscal and monetary powers, statistical data collection, navigation, shipping, fisheries, and all undertakings involving more than one province.

The federal government has come to the aid of the service and supply sector and smaller oil and gas producers with the Canadian Exploration and Development Program. The program provides \$350 million a year in assistance and is expected to result in additional investment of \$1 billion, and employment for up to 20,000 persons.

The provincial government has an Exploration Technology Development Fund, which provides up to \$150,000 per grant per year for applied research by consultants and instrument manufacturers, for innovative technology. The Ontario Geoscience Research Program was established for university research in geosciences.

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TOURISM INDUSTRIES

Canadians, particularly Ontarians, utilize the tourist industry quite extensively. This holds true not only for traditional travel and tour operations, but also for other areas not entirely devoted to tourism activity. The Secretariat defines this industry as including:

Food and Beverage Service Industries;
Accommodation Service Industries;
Amusement and Recreational Industries and
Travel Services and Tour Operators.

Structure

The percentage of Canadian real gross domestic product (1971 dollars) in 1985 for accommodation and food services was 2.46%; for amusement and recreation services, 0.85%; for hotels and motels, 0.84%; and for restaurants, caterers and taverns, 1.53%. Accommodation and food services accounted for over 2% of Ontario's gross domestic product in 1983, hotels and motels comprised 0.6%, and restaurants, taverns and caterers accounted for 1.6%. Employment in accommodation and food services in Canada in 1985 was 542,000 individuals, with 207,000 located in Ontario.

Tourism in Canada declined 6% between 1982 and 1984. Total spending on travel and tourism in Canada reached \$17.3 billion in 1984. Canadian residents travelling domestically accounted for \$12.9 billion of this total, while the remaining \$4.4 billion were received from non-residents. Ontario is the origin for almost half of all domestic travellers in Canada.

Of the over 96 million individuals who travelled within Canada in 1984, 42% were Ontario residents. Ontarians expended over \$4 billion on domestic travel, 35% of all dollars spent in Canada. Ontario accounted for most business travellers in Canada, as well. It was also the most popular province of destination. Over 35 million people visited Ontario, spending over \$3 billion in the process.

This \$3 billion expended in Ontario in 1984 by Canadian tourists can be divided as follows:

Public transportation	- \$620 million
Private transportation	- \$1,001 million
Accommodation	- \$449 million
Food and Beverages	- \$911 million
Recreation and Entertainment	- \$306 million
Other expenses	- \$441 million

Travellers appear to prefer certain activities during their vacation. Canadians and Ontarians select visiting friends and relatives as the number one activity, followed by shopping.

Traditionally, Canadians spend more in foreign countries than international travellers spend in Canada. The deficit has remained at above \$2 billion for the years 1982 to 1985. According to Statistics Canada, this discrepancy can be related to particular trip characteristics. Canadian tourists spend more time and therefore more money on international trips in both the U.S. and other countries than do international travellers in Canada.

The accommodation sector includes hotels, motels, and tourist courts. Between 1979 and 1983, motels were more likely than hotels to remain in operation more than one year after the first year of operation. The average hotel is twice as large as the average motel. Chain hotels are about three times as large as the average hotel. Motels that are affiliated with chains are larger than independent motels. In terms of total accommodation available to travellers, Ontario had the most number of locations throughout Canada in 1984. There were 1,006 hotels, 1,275 motels, 1,397 tourist courts and cabins, 1,156 tent and trailer campgrounds, and 586 outfitters. Total receipts of traveller accommodation establishments in 1984, for Ontario, were \$1,793.1 million, 31% of the Canadian total. Average room rates in Canadian metropolitan centres were highest in Toronto at \$73.00 a night.

Food and beverage establishments in Ontario received over \$4 billion in 1984, which represents almost 40% of total Canadian revenues. This increased to over \$5 billion by 1986. Subdivided by type of establishment, this included \$2.5 billion for licensed restaurants, \$1.2 billion for unlicensed restaurants, \$0.7 billion for take-outs, \$0.5 billion for caterers and \$0.2 billion for taverns.

The average annual family expenditure on recreational activities in Canada for 1984 was \$1,543. For Ontario (represented by Ottawa, Toronto and Thunder Bay), average annual family expenditure was \$1,660. This figure is comprised of the following numbers:

Recreation, equipment and associated services	- \$454
Toys, games and hobby equipment	- \$142
Photographic goods and services	- \$127
Recreation vehicles and outboard motors	- \$253
Purchase of recreation vehicles	- \$176

Home entertainment equipment and services	- \$349
Recreation services	- \$605
Spectator-entertainment performances	- \$234
Use of recreation facilities	- \$583
Package travel tours	- \$216

In 1982, it was estimated that the direct impact of the arts and culture sector on Canadian GDP approached \$8 billion. The 1981 Census counted almost 280,000 Canadians in the arts and culture labour force.

Admission receipts of regular motion picture theatres in Ontario were \$125.5 million in 1982. This was the highest total for all of Canada and represented about 40% of total Canadian receipts. As of 1982, there were 295 theatres in Ontario. Salaries and wages for theatre personnel amounted to \$29.2 million. Ontario also had the highest proportion of drive-in theatres in Canada. The 85 theatres received over \$15 million in receipts in 1982. Salaries and wages for drive-in employees were \$4.2 million dollars.

According to the Metropolitan Toronto Convention and Visitors Association (MTVCA), member facilities reported a total of 600 conventions with combined delegate attendance of 453,000 in 1986. This contributed about \$228 million to the Metro Toronto economy. The MTVCA membership base comprises over 850 companies. Convention sales staff have sold 639 future meetings, which will contribute about \$266 million to Metro Toronto's economy in the next 10 years.

The Ministry of Tourism and Recreation estimates the convention and conference planners industry in Ontario to be worth \$1 to \$2 billion annually.

Industry Trends

The tourism industry is based on discretionary spending by Canadian consumers. Therefore, the economic climate has a very strong impact on this sector. Foreign and domestic fiscal and monetary policies affect tourism through interest rates, prices and exchange rates. There are also other non-economic factors which range from fear of terrorism to major environmental disruptions such as earthquakes.

There is a high correlation between a person's educational level and the propensity to travel. The higher the income level, the greater the tendency to travel. Most travellers tend to be young or middle-aged.

The U.S. is the most popular destination for Ontario residents, particularly professionals in the 25-34 age group. Ontarians are also the most likely Canadian residents to travel internationally. In the overseas category, income levels are a significant factor.

The characteristics of non-travellers were basically opposite to those described above. Most non-travellers were over 65, and had lower incomes and lower levels of education.

The quality of tourism services is a major issue. Tourism training and professional development in Canada are limited. Canada has few institutions with international credentials in tourism. The majority of training and education have prepared people for entry level positions. In 1986, the Ontario and Canadian governments announced that a new \$10 million Canadian Tourism Management Centre will be built in Barrie, Ontario.

There are a number of areas of weakness in tourism programs for Ontario. The Ministry of Tourism and Recreation, in conjunction with various tourist operations, outlined a number of problems and concerns that were impeding the increased flow of overseas tourists to Ontario. These include an image problem and lack of awareness of Ontario as a vacation destination, the lack of multilingual services, and the impression that food and accommodation are too expensive in Canada. Ontario's expenditure on overseas advertising, which would dispel some of these concerns, has declined steadily over the years.

According to the Ministry of Tourism and Recreation, the U.S. conference and convention planning industry potentially generates about \$40 billion worth of business. Canada receives approximately 2-4% of that business, of which Ontario captures the lion's share at 50%.

The Metro Toronto Convention and Visitors Association undertook a telemarketing campaign to increase 1987 convention bookings. More than 3,000 calls were completed, which developed into over 200 leads.

The Ministry of Tourism and Recreation, through the Travel Trade and Convention Services Section, has representatives in Boston, New York, Chicago, Los Angeles, London, Frankfurt, Tokyo and Paris. These consultants work closely with various convention bureaus across the province offering expertise and funding as well as representing the convention and conference planners industry to Tourism Canada.

Regulatory Environment

Numerous Acts exist that affect components of the tourism industry. The Tourism Act regulates tourist establishments that provide sleeping accommodation. The Travel Industry Act sets out registration and other requirements for travel agents and tour operators. Other legislation, such as the Liquor Licence Act, the Innkeepers Act, and the Retail Business Holidays Act also affect tourism in Ontario.

Government Initiatives

Both the federal and Ontario governments supply promotional, research and information services for the industry. The Provincial government provides advice to the industry on planning and development and promotes the use of Ontario facilities through domestic and international marketing. Expenditures on recreation, culture and tourism by the Federal government in 1985 amounted to \$967 million. Provincial government expenditures on tourism in 1983-84 amounted to \$67.1 million, while spending on recreation and culture for 1984-1985 was \$312.1 million. Ontario provincial government budgetary expenditure by the Ministry of Tourism and Recreation is expected to be \$126 million for 1986-87.

Federal assistance to the tourism industry is provided through the Small Business Loans Act, the Federal Business Development Bank, and the Canada Employment and Immigration Commission. External Affairs Canada has an Arts Promotion Program that provides grants to Canadian performers, artists, writers, impresarios, curators and publishers to enable them to undertake international tours and exhibitions.

The Canada-Ontario Subsidiary Agreement for Tourism Development, under the Economic and Regional Development Agreements (ERDA), calls for a federal contribution to Ontario of \$22 million over five years, with another \$22 million provided by Ontario. The Eastern Ontario Subsidiary Agreement (EOSA) provides for equal sharing by Canada and Ontario of regional projects located in Eastern Ontario.

The Ontario Ministry of Tourism and Recreation has a number of programs designed to promote tourism throughout Ontario. These are detailed in the Table 1 at the end of this profile.

Another program initiative is the Trade and Convention Centre Program, which involves federal cost sharing with provincial and/or municipal governments and the private sector.

The Tourism Redevelopment Incentive Program (TRIP) provides loan guarantees of up to \$1 million and subsidizes interest rates for both new and existing tourist establishments.

Other programs that assist tourist development are the Tourism Term Loan Program, the Municipal Tourism Development Planning Program, the Nor-Dev, Ontario Development Corporation's Help for Entrepreneurs Loan Program (H.E.L.P.), Ontario's Small Business Development Corporations (SBDC) Program, the Ontario Youth Employment Program, and the Ontario Career Action Program.

The Ontario government, through the Ontario Film Development Corporation, has fostered the development of Canadian-owned, Ontario-based film producers. The OFDC provides financial assistance to producers, writers and directors.

Telefilm Canada spent \$74.5 million on Canadian production and project development through its broadcast and feature film funds for the fiscal year ended March 1987. From July 1986 through March 31, 1987, the feature film fund poured \$16.2 million into 22 Canadian projects.

The Ontario Ministry of Citizenship and Culture provides operating grants to provincial cultural institutions and agencies, arts service organizations and arts training institutions. The Ontario Arts council provides grants to performing and creative arts groups, publishing houses, regional arts councils and festivals, arts service groups, community arts projects and individual artists.

Trade Issues

International agreements - There is no international agreement that deals with the industry or its segments as a whole. However, there are a variety of sector specific agreements (e.g. air transportation) that impact on the industry. In the food and beverage and accommodation segments the management of these goods are subject to tariff barriers and domestic laws regulating foreign direct investment. In entertainment, GATT regulates the flow of motion picture films, but other recreation products and services face only regular domestic direct foreign investment regulation and telecommunications and broadcasting regulations in each country.

Non-tariff barriers - Canada does not impose any non-tariff barriers (e.g. currency restrictions) on legitimate tourists to Canada. It does, however, impose NTBs in other tourism areas such as: the requirement of visas from nationals of other countries that impose visa restrictions on Canadian tourists; Canadian customs exemptions and travel subsidies; and Canadian and U.S. restrictions on short-term entry for performers, celebrities, etc. The cultural arena hosts a myriad of NTBs that range from Canadian content regulations to advertising restrictions.

In the other segments of the industry, imports to Canada face a barrage of federal and provincial regulations and tariffs. Food and beverage imports are subject to regulations on quality and must compete with the vast agricultural support program provided in Canada.

With respect to the accommodation segment of the industry, firms are subject to local planning restrictions and the quality standards of the major tourist associations. Purchasers of domestic firms are subject to foreign direct investment revenues.

In the recreation segment, imports to Canada are subject to barriers such as the Broadcasting Act, which calls for Canadian content performances, and the regulatory provision put in place by the CRTC. There are a number of NTBs for the entertainment industry: import quotas for foreign theatrical and TV films, discriminatory taxation against foreign films, high fees paid by foreign companies to local film organizations that control import licences and government subsidies to local film producers.

Free trade implications - Free trade does not appear to carry any major implications for tourist flow between the two countries. Agreements reached in other industries such as transportation may have an impact on tourism.

The accommodation industry may not be impacted by a free trade agreement except for the removal of foreign investment review decisions.

The recreation industry, particularly those segments that fall within the purview of "culture" (i.e. broadcasting, film, books) would be affected. However, it is understood they are not included in the free trade negotiations.

Trading situation - Tourism is a major contributor to Canada's and Ontario's economic performance. The major market for tourists to Ontario is the U.S., followed by the EEC and a number of Pacific Rim nations.

TABLE 1

Department	Program	Eligibility Criteria	Description
Ministry of Tourism and Recreation (M.T.R.)	Canada-Ontario Tourism Development Program	Projects should be outside Toronto and shareholders should provide a minimum 50% of required equity	Encourage development of internationally competitive tourism travel generators and attract more private sector investment in the development of tourism
M.T.R.	Tourism Redevelopment Incentive Program	For companies outside of Toronto. Priority will be given to applicants in Tourism Ontario's Grading Program	Financial assistance for the establishment of new tourism facilities and expansion and renovation of existing establishments
M.T.R.	Tourism Term Loan Program	as above	as above
M.T.R.	Grading Assistance Loan Program	Tourist accommodation facilities anywhere in Ontario and possessing a "Tourism Ontario Report on Establishment Upgrading" certificate with annual revenues of less than \$1,500,000	Encourage renovation and upgrading of existing accommodation establishments
M.T.R.	Destinations North-Capital Assistance Program	Subject to certain Northern Ontario boundaries, dollar sales volume, and must be commercial private sector venture	Encourage investment in the Northern Ontario tourism industry, stimulate job creation and increase visits

Department	Program	Eligibility Criteria	Description
M.T.R.	Destinations North-Working Capital Assistance	as above	Assist Tourist Operators in meeting fluctuating working capital requirements and unexpected expenses
M.T.R.	Destinations North-Large Scale Tourism Development	Attractions, major destination facilities and infrastructure services that are tourism related. Subject to certain Northern Ontario boundaries	Identify development opportunities for major travel generators which will attract visitors to stay longer and spend more money
M.T.R.	Destinations East-Investment Sourcing	Subject to certain Eastern Ontario boundaries	Identify and attract more private investment capital for the development of tourism in Eastern Ontario
M.T.R.	Destinations East-Festivals and Special Events	as above	New and existing festivals and special events sponsored by non-profit organizations and municipalities
M.T.R.	Destinations East-Major Capital Projects	as above Private or public sector initiatives	Expansions or new attractions, destination facilities, infrastructure, or waterfront developments that will become major int'l tourism generator.

Department	Program	Eligibility Criteria	Description
M.T.R.	Destinations East-Capital Assistance	as above Priority given to applicants participating in Tourism Ontario's Grading Program	Attract more private investment in the improvement of small and medium sized tourism facilities
M.T.R.	Destinations East-Planning and Feasibility Studies	Projects restricted by Eastern Ontario boundaries. Planning studies sponsored by municipalities and feasibility studies sponsored by operators, developers and/or municipalities	Identify opportunities for tourism development and to establish financial viability of given projects
M.T.R.	Destinations East-Capital Assistance	Projects restricted by Eastern Ontario boundaries	Encourage more and better marketing on the part of the existing commercial tourism establishments

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TRANSPORTATION INDUSTRIES

Transportation industries are involved with the movement of goods and people by different modes of transport, as well as storage and warehousing activities affiliated with the transport group. The major segments within this group are:

- Air Transport;
- Rail Transport;
- Water Transport;
- Road Transport;
- Pipeline Transport
- Public Passenger Transit Systems, and
- Storage and Warehousing Facilities.

Structure

The transportation sector is a major force in the Canadian economy. In 1987, transportation services accounted for about 10% of GDP in Canada. Due to the location of headquarters and maintenance facilities in other provinces, Ontario's share within Canada is disproportionately small.

Statistics Canada has delineated this segment into air, rail, water, trucking, storage and warehousing and other (which includes public transit and pipeline facilities). According to their tabulations, 5,288 firms were engaged in transportation services in 1986 in Ontario. This comprised about 2.2% of the total number of establishments in the service sector.

In Ontario, transportation firms employed 127,728 people in 1986, representing about 3.8% of total service sector employment. The majority of employees were in the road and other categories. Salaries and wages for the transportation sector totalled over \$5.2 billion in 1986, which constitutes about 7.4% of total salaries and wages for the service sector.

Employment growth shifted among different modes of the transportation industry between the years of 1978 and 1984. Rail, water, and road services have each experienced declining employment growth over this period, by -15.5%, -17.0%, and -1.8% respectively. Air, pipeline and passenger, and storage and warehousing have each experienced total growth in employment by 12.5%, 22.5% and 2.5% respectively. On the whole, the industry's employment has grown by 3% over the 1978 to 1984 time period.

Ninety percent of the Ontario transportation sector was classified as small firms in 1984. According to the 1984 Calura report, foreign ownership is virtually nonexistent, accounting for only 144 corporations, whereas Canadian ownership accounted for 20,506 corporations.

Industry Trends

Intermodal transfers have occurred over the last 40 years due to increased productivity and efficiency and improved technology. The industry experienced a transition from rail to truck as roads and vehicles improved, and from public transit to private automobiles as population and affluence increased and the relative prices for cars declined.

The rail industry, which has experienced a declining share of the passenger and freight markets over the last decade, is one of the most highly subsidized industries in Canada. This is expected to change as governments instate a policy of subsidy reduction. Airlines have become the choice for business and discretionary travellers, which may be a function of Canada's geography and its proximity to international destinations.

The major issue facing the transportation sector at this time is domestic deregulation, which is slated to come into effect on January 1, 1988. This impending policy will increase competition in an already competitive industry. The restrictive rules for entry into different modes of transportation will be relaxed. This, in turn, may lead to a restructuring of the market and create increased concentration and efficiency.

Recent forays by the U.S. and Europe into deregulation have influenced the Canadian industry. Air, railway and road services in the U.S. were all deregulated by 1980. This has resulted in a shift from Canadian to U.S. carriers for the movement of transborder and international freight traffic.

Road transport services will experience a reduction in the number of firms as larger trucking companies merge or acquire smaller firms.

Rail transport services perceive more competition as a result of lower rates for shippers, improvements in the rate arbitration process and the use of confidential contracts as opposed to published contracts for rates.

Air transport services have already started to experience the effects of the deregulation. Since most of the U.S. restrictions that formerly controlled entry into the airline market will be removed, we can expect increased competition and consolidation, with a subsequent reduction in prices for consumers. To cope with these challenges, the Canadian airline industry is becoming a stronger presence in the air cargo market.

Water transport services anticipate increased flexibility in establishing the rate structure on a confidential as opposed to a public basis. This is the segment that will be least affected by deregulation.

Technology is another area that has enabled different segments of the transportation industry to compete with one another. Instead of using rate books and lists of carriers, each segment can utilize computers to determine the proper service required, prices and the number of potential users for their business. For example, the trucking industry has captured a major portion of rail business within a 1,000 kilometre radius because of newer and bigger trucks and the increased use of computer data base information.

Improved telecommunications technology could reduce some travel requirements especially in the business sector.

Intermodalism is a growing area of the transportation sector. It allows rail, air, road and water transport services to combine their strengths to service the consumer.

Regulatory Environment

Regulation of all segments of the transportation industry in Canada, except for trucking, has primarily been the responsibility of the Canadian Transport Commission (CTC) which was established in 1967. The CTC is primarily responsible for regulation and has an air, rail and water committee. Transport Canada is the department responsible for policy research and advice and has an air, marine and surface administration. The provinces are responsible for bus traffic, the enforcement of auto-safety regulations and smaller airports. This fragmented regulatory policy complicates policy formulations. Jurisdictional problems can occur in three areas: (1) between the government and the private sector; (2) between any of the three levels of government; and (3) between various departments and agencies.

In the trucking area, regulation of interprovincial and intraprovincial trucking was ceded to the provincial governments in 1954. As a result, trucking regulations are inconsistent on a country-wide basis and this has impeded the flow of goods between provinces.

In terms of air transportation, regulation requires that ownership of domestic airlines be at least 75% Canadian.

Safety regulation and accident prevention is a federal responsibility and currently resides with Transport Canada for air and marine transportation and with the Canadian Transport Commission for rail.

Government Initiatives

Governments are very involved in the transportation system at the national, regional and local levels. Government expenditures for transport account for a large component of federal, provincial and municipal net expenditures. These expenditures support the development of the transportation infrastructure and for direct subsidies. Some federal transport programs support government responsibilities in the areas of economic and safety regulation and accident prevention. Others provide financial assistance to specific groups of users through subsidies, cost-sharing programs, and facilities and services. The province provides funding to support 70 airports and subsidies to assist GO Transit, TTC, and the Ontario Northern Transportation Commission.

Some programs result from statutory obligations, as outlined in the terms of Confederation, or legislation such as the National Transportation Act, the Railway Act and the Western Grain Transportation Act. Other programs are derived from ad hoc decisions involving federal/provincial agreements negotiated on a project specific basis.

The Ontario Ministry of Transportation and Communications through the Transit Control Technology and Systems Office conducts research, development and demonstration activities in the application and control of information system technologies. This will help to improve transportation and communications networks in Ontario.

Trade Issues

International agreements - A number of international agreements/organizations affect the various components of the transportation industry. These include the following:

the International Civil Aviation Organization and International Air Transport Association for air travel and cargo; U.S. Treaties of Friendship, Commerce and Navigation; the International Maritime Organization and the UNCTAD Convention on a Code of Conduct for Liner Conferences for shipping; and European Conference of Ministers of Transport, International Road Transport Union and International Railways Union for land transportation. Most of these agreements/organizations concern themselves with rate structures, certification, licensing and tariff systems.

Non-tariff barriers - There are also a number of NTBs relating to transportation industries. In maritime transport NTBs are imposed mainly for national security concerns and the promotion of the domestic merchant marine. Legislation introduced recently in many countries has extended the cabotage laws to include offshore oil related activities. In air transportation there are few NTBs as air transport firms are usually given liberal treatment on the basis of reciprocity in areas of rates, schedules and landing rights. Canada is party to all air transportation multilateral treaties, bilateral agreements, inter-airline agreements and arrangements. Land transportation is generally free of NTBs except in the areas of administrative services, government monopoly, licensing and authorization concerning the necessary professional qualifications or the financial capabilities of operating a business.

Free trade implications - It is difficult to determine the impacts of a free trade agreement on the maritime and air transportation segments of this industry. The air industry in Canada is poised to undergo significant regulatory changes and these may alleviate any U.S. concerns about their access and operating in Canada. The existing Bilateral Air Agreement defines a 150-mile access limit that favours U.S. carriers. This will not likely change in the near future. A contentious issue may be safety in air transportation as Canadian standards are significantly higher than the U.S. Land transportation, particularly road, will be significantly affected by a free trade agreement in terms of Canadian road transportation firms ability to compete with the large U.S. trucking firms. This also will be affected by the general industry/government deregulation occurring in this sector.

Trading situation - The major markets for transportation services are in the U.S.; however, there have been a number of projects carried out in the Middle East and Asia. Other markets include Trinidad, South America, India, Indonesia and Pakistan.

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APPENDIX I

SERVICE SECTOR DEFINITIONS

There exist a multitude of definitions for the service sector. The Secretariat does not have one specific and formal definition.

The most widely used definitions for the service sector are:

- "Residual"- Non-manufacturing, non-primary service sector activity that is not involved in the production or modification of tangible objects. All industrial activity not found within the agricultural, mining, or manufacturing categories.
- "Intangibles"- The service sector is subject to the intangible nature of the service product. This particular definition is too limiting since some services do produce a tangible product.
- D.R. Riddle - Services are economic activities that provide time, place and form utility while bringing about a change in or for the recipient of the service. Services are produced by (1) the producer acting for the recipient; (2) the recipient providing part of the labour; and/or (3) the recipient and the producer creating the service in interaction
- T.P. Hill - A service is an economic transaction between two agents which leads to a change in the condition of a person or a good. Services are consumed as they are produced in the sense that the change in the condition of the consumer unit must occur simultaneously with the production of that change by the producer.
- Institute for Research on Public Policy (IRPP) - The structural change from primary products and manufactured goods to an economy based on the collection, storage, processing and use of information and "transaction" services.

Gershuny & Miles- Four distinct definitions of "service":

1. Service industry-intangibles, residual
2. Service products- not necessarily produced by service industries; manufacturing firms may package services with their goods or on their own.
3. Service occupations- involved in non-production activities ranging from data- processing to repair and maintenance etc..
4. Service functions- involve individuals in service work but not necessarily for monetary gains i.e. voluntary organizations, final service products produced in an individuals free time.

SERVICE SECTOR BREAKDOWN

The Service Sector Secretariat has divided the service sector into the following industry groupings:

- Construction Industries
- Distributive Trade Services
- Financial Services
- Informatcs
- Personal and Household Services
- Professional, Scientific and Business Services
- Public Services
- Public Administrative Services
- Service Industries Incidental to the Primary Sector
- Tourism Service Industries
- Transportation Services

These groupings closely approximate the industry segments outlined in the Statistics Canada 1980 Standard Industrial Classification (S.I.C.) Index. Definitions of each industry grouping are as follows:

Construction Industries- Building, developing and general contracting establishments primarily working in the construction and development of residential, commercial and institutional buildings and real estate. Also included are industrial and heavy construction contractors engaged in the construction of projects other than buildings. Trade contractors supply the general contractor with their specialized service. Land developers are found within this category as they are interested in the acquisition, assembly, subdivision and servicing of land for subsequent resale to builders. Project management services are engaged in project management, contract management or construction management.

Distributive Trades- Establishments dealing with distributing services to industrial, commercial, institutional, farm, business users and the general public. It includes wholesale trade industries which are concerned with buying merchandise for resale to the different users; retail trade firms that buy commodities for resale to the general public for personal or household consumption; trading houses which specialize in exporting, importing and third-country trading in goods and services produced or provided by other parties; direct sellers who are primarily involved in retail dealings by means of telephone, door-to-door canvassing or parties arranged in customers' homes.

Financial Services- These organizations are divided as follows: firms primarily responsible for accepting deposits and carrying on banking activities; companies extending loans to and/or financing equipment, facilities, inventory and sales for businesses and individuals; firms primarily engaged in investing in a portfolio of securities and other investments on behalf of their shareholders; companies that underwrite all modes of insurance; security brokers and dealers, mortgage brokers, real estate brokers and agencies; and financial planners.

Informatics- These are establishments primarily involved in telecommunications broadcasting and transmission services, information providers, software and computer services, and printing and publishing industries.

Personal and Household Services- Establishments that are primarily involved with providing personal care and private household services, laundry and cleaning facilities, funeral services as well as religious membership associations.

Professional, Scientific and Business Services- Companies that are primarily engaged in providing services more to the business community than to the general public. A wide range of scientific and technical applications are included such as testing service, environmental management and consulting and geomatics - including remote sensing, geographic information systems and surveying. Lawyers, accountants, architects engineers and other professionals are found within this category as well as designers, employment agencies, advertising agencies, and franchises.

Public Administrative Services- Establishments which direct, support, control and otherwise administer activities carried on largely by non-government organizations. Major concerns are with the maintenance and development of human resources and economic development.

Public Services- These establishments are primarily government operated or funded and are engaged in providing services for the public such as formal academic or technical training; libraries, museums and other repositories; institutional and non-institutional health and social service facilities; services for labour, employment, immigration, and citizenship; services that ensure the security of persons and property; political and civic organizations; and public utilities that are engaged in the generation, transmission and distribution of electricity, natural gas, and water.

Service Industries Incidental to the Primary Sector- This grouping includes all companies that provide services to agriculture, fishing, forestry and mineral extraction. Included are agricultural management and consulting services; fish hatcheries operation, inspection and protection services; forest products gathering, forestry patrol, fire inspection and firefighting, reforestation as well as forestry consultants; contract drilling and other services necessary for the operation of petroleum and gas fields.

Tourism Service Industries- This sector is concerned with operating facilities for tourists and the general public such as hotels, motels and other accommodation centers; restaurants, take-out food and catering services; amusement, entertainment or recreational facilities and companies; and ticket travel agencies, tour wholesaling and tour operating services.

Transportation Services- These service firms are engaged in the movement of goods and passengers by air, railway, water, motor vehicles and pipelines. Included are services incidental to these modes of transport as well as those engaged in operating grain elevators, general merchandise warehouses, cold storage or other storage facilities.

